

**AGRICULTURE, RURAL DEVELOPMENT, FOOD
AND DRUG ADMINISTRATION, AND RE-
LATED AGENCIES APPROPRIATIONS FOR
FISCAL YEAR 2014**

THURSDAY, MAY 9, 2013

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:40 a.m., in room SD-124, Dirksen Senate Office Building, Hon. Mark L. Pryor (chairman) presiding.
Present: Senators Pryor, Johnson, Tester, Udall, Merkley, Blunt, Cochran, Moran, and Hoeven.

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

STATEMENT OF HON. THOMAS J. VILSACK, SECRETARY

ACCOMPANIED BY MICHAEL YOUNG, BUDGET OFFICER

OPENING STATEMENT OF SENATOR MARK L. PRYOR

Senator PRYOR. We'll go ahead and call this hearing to order. I want to thank everyone for coming and being here today.

We have two panels today. The first will be Secretary Tom Vilsack, who will be accompanied by Mike Young, the Chief Budget Officer. I'd like to welcome you both and say thank you for being here, and we appreciate hearing from you today.

Secretary Vilsack, we've visited many times and a few times even since I have become the chairman of the subcommittee. And I think that we've been able to accomplish some really good things together. And I look forward to continue working with you on all manner of things that relate to your Department and very important policies that you have to deal with in these very challenging times. So I look forward to doing that with you and thank you again for being here.

And on the second panel, we'll hear from the USDA Inspector General Phyllis Fong. We appreciate her being here, and we look forward to hearing from her as well.

And there's an old saying that a person with food has many problems, but a person with no food has only one problem. I think that that really sums up the importance of USDA and highlights the reason it's referred to as the people's Department.

American farmers not only feed this country but they feed people around the world. The challenges facing America's farmers, however, are rapidly growing and changing. When USDA was established by President Lincoln in 1862, almost one-half of the U.S. population lived on farms. Today, it's about 2 percent. Yet, the world's demand for food and feed and fiber continues to increase, and it is expected to double by the year 2050.

Our population at that point supposedly is going to be about 9 billion people. So the farmers have to produce more and do more with less. They're going to have less land. There's going to be greater competition for bioenergy and other uses of agricultural products. There's going to be a laser-focus on stewardship of the land and, unfortunately, increasingly unpredictable weather patterns.

And I have no doubt that America's producers will rise to the occasion. They're working harder and smarter than ever before. There's a reason why Thomas Jefferson called agriculture science of the very highest order.

And I know in a few moments, Secretary Vilsack is going to want to talk to some about research and innovation and the science involved in what he does. And at this moment in time, America's investment in agriculture is clearly paying off.

Adjusted for inflation, 2013 net farm income is expected to be the highest since 1973. The United States has exported \$478 billion worth of agricultural products over the last 4 years.

In Arkansas, for example, agriculture is our number one industry. It's going to be either number one or, in some States, number two, but always in the top three in every single State of the most important industries in that State.

Our farmers produce more than 50 percent of U.S. rice. We're also number two in poultry and eggs. We have over 49,000 farms. We have a big timber presence. We have a very diverse portfolio in Arkansas, as most members here on the subcommittee do.

And so agriculture is a big deal in our States, and it's something that we want to do well. But the challenges remain. The USDA must do everything it can to continue to support farmers and rural America, because their hard work supports all of us.

So let's take a look at USDA budget for 2014. Overall, the funding is less than that of 1 year ago. And within that total, there's a \$100 million increase for Rural Development, Rental Assistance Grant. There's an increase for Farm Service agencies. There's an increase for competitive research and the Women, Infants, and Children (WIC) program.

However, the downside would be that we're seeing some decreases in water and waste grants. There's approximately \$500 million less to make loans for single-family homes. The Public Law 480 program, which has fed more than 3 billion people in 150 countries since its inception in 1954 is dismantled in this budget.

There's, obviously, much more in the budget than these few points I mentioned, and I look forward to hearing from the Secretary and all of the Senators and others about what we're going to go into here in this hearing.

So I hope that we'll discuss the impact of the sequester. I know that's something that the Secretary is vitally interested in. And I share the view that I think most do, that the sequester is a very

imprecise, not very smart way to do this. We need to be more targeted and smarter about how we do our cuts. But nonetheless, that's where we are today.

So we have a lot to cover, and I want to cut my comments short here and go ahead and recognize Senator Blunt for his great work and recognize him for his opening statement.

STATEMENT OF SENATOR ROY BLUNT

Senator BLUNT. Thank you, Chairman. I'm very pleased to be on this subcommittee and pleased to be serving with you, looking forward to your leadership of the subcommittee.

This is, actually, the second hearing we've done since Chairman Pryor took over the chief responsibility for this subcommittee, and we have worked together on other things before. And I look forward, certainly, to working with him and the other members of the subcommittee to do what needs to be done and to do our best to get what needs to get done accomplished in the right way.

Secretary Vilsack, Mr. Young, we're certainly glad that you're here today. I might have a couple of other comments before we get to the second panel. But I think I'll just restrict my comments right now to the overall view of what I think we need to be thinking about.

Certainly, as the chairman has already said, agriculture plays a critical role in our country. It's been an unbelievably competitive industry in exports as well as feeding the American people.

In Missouri, agriculture is always considered the number one driver of our economy. And in every State, agriculture is high on the list of things that make the economies of those States work.

Challenges are out there. Last year, about 80 percent of agricultural land across America experienced drought. It was the most extensive drought since the 1950s. All 114 Missouri counties were declared a disaster area because of that drought, and many of them with such dry conditions that they ranked among the worst in the country.

The effects of the drought had been far-reaching, particularly on the livestock industry, which is important in all of our States. And there's not the kind of robust risk management program in livestock like there is in crop insurance, particularly with the expiration of the livestock disaster program in 2011. These producers really haven't had a safety net to rely on for almost 2 years.

As a result, there has been a lot of liquidation of herds resulting in the lowest number of U.S. cattle since 1952. Missouri's cattle herd declined by 300,000 last year. And of course, that has lots of far-reaching consequences whenever young cows are sold off and don't become part of the replenishing crop of cattle and livestock.

I've introduced legislation that would extend the livestock disaster programs so that these producers receive some assistance. I hope we're able to discuss that today and after today.

We all know the size of Government has grown beyond its means, which is why we have to prioritize what we do. The President actually proposed a budget that is lower than the fiscal year 2013 funding levels for the U.S. Department of Agriculture. Most of this reduction, however, was a result of the administration's proposal to shift about \$1.5 billion in funding for the Food for Peace

Program to the accounts that would be administered differently than Food for Peace under State and Foreign Ops.

I actually think Food for Peace has been a cornerstone of America's humanitarian assistance since the mid-1950s. It plays a vital role in linking the American farmer with the developing world, and it's the largest and most consistently supported food and agriculture development assistance program we provide. I think the polling would indicate it's the most popular of all the foreign assistance programs.

I have what I believe to be a legitimate concern that the proposed changes are shortsighted. I hope we continue with Food for Peace and a more traditional view of Food for Peace. And I'm sure we can talk about that today, as well.

If you actually put Food for Peace back in the USDA budget, it's a little higher. There's a net increase over last year, and I would think that would be the right thing to see happen here.

So I'm looking forward to your testimony. We look forward to the chance to ask questions and work with the Department, both in research and management. The fact that USDA has been able to work with the line-by-line budget changes without having to furlough employees says a lot about your management, Mr. Secretary. And, again, I'm glad you're here and grateful to the chairman for leading this discussion in this hearing today.

Senator PRYOR. Thank you, Senator Blunt.

And would anybody else would like make an opening statement?

STATEMENT OF SENATOR TIM JOHNSON

Senator JOHNSON. Mr. Chairman, I'm pleased to join you in welcoming the distinguished Secretary to our hearing, and I ask unanimous consent the balance of my remarks be printed in the record.

[The referenced statement was not available at press time.]

Senator PRYOR. Without objection. Thank you.

Thank you all for being here, and we'll put everyone's statements in the record.

Secretary Vilsack, welcome to the subcommittee. We're glad to have you here and look forward to hearing from your testimony.

SUMMARY STATEMENT OF HON. THOMAS J. VILSACK

Secretary VILSACK. Mr. Chairman, thank you very much. And I appreciate your comments, as well as Senator Blunt's comments.

I appreciate the opportunity to be here this morning. And first of all, I probably should thank you and Senator Blunt and the members of this subcommittee for your assistance and help on the food inspection issue, which was critically of concern to us. And you all helped us get through that process, and I want to thank you for that.

Budgets are very difficult and challenging work, especially in this environment. You're balancing the need to expand economic opportunity and to help America's farmers and ranchers at the same time we're dealing with constrained budgets.

I'd like to talk to you for just a few minutes about this budget and then be happy to answer questions.

Let me point out that, currently, we are working with a budget in 2013, and this would also be true if our budget were passed in

2014, that will be below the discretionary budget authority that I had when I became Secretary in 2009.

Currently, we're dealing with a budget that is about \$1 billion below where it was in 2009 in terms of our discretionary authority. We're also taking a look at a reduced workforce, roughly 8,000 fewer workers at USDA than when I became Secretary.

But the level of service that's being provided by those at USDA continues to be at record levels. In fact, you can take a look at agricultural exports, you can look at conservation, you can look at the Farm Service loan portfolio, or Rural Development's loan portfolio, and what you will see is at or near or exceeding record levels of activity.

So, essentially, what we're proposing is a continuation of our effort to try to rebuild the rural economy and to continue to provide assistance and help to the greatest farmers, ranchers, and producers in the world.

Let me specifically tell you what this budget does. It continues to allow the extension of credit to 134,000 producers in this country with a focus on beginning farmers and ranchers. It makes a strong commitment to a strong safety net, \$9.6 billion in crop insurance assistance. And, as Senator Blunt has suggested, it also provides for a reinstatement of the Disaster Assistance Programs that were discontinued in 2011 that are so vital to our livestock and dairy industry.

It aggressively continues our effort to promote trade. Mention was made of the fact that we're now at historic levels in terms of agricultural trade. We want to continue to promote trade around the world, and we want to continue to reduce sanitary and phytosanitary barriers that are being constructed that are not science-based and not rules-based.

This budget supports a fair and transparent market system. It continues our efforts to protect our crops and plants and animals from deadly pests and diseases and, specifically, proposes a \$20 million initiative reducing feral swine.

It modernizes our research facilities, especially a poultry facility, which we are suggesting needs to be modernized and built in Georgia.

It significantly increases our commitment to agricultural innovation. The reality is that we have flat-lined research for far too long in this country in terms of agriculture. And if we continue along that trend, we'll see a decline in productivity at a time when we need to continue to increase agricultural productivity.

This budget simplifies our conservation programs but will add 26.3 million acres to our record number of acres enrolled in conservation, and will help 80,000 farmers and producers do a better job of conserving the land and the water.

It will continue to support all levels and all types of agricultural production, including organic production, a rapidly growing and expanding area of agriculture. And it will continue our commitment to improving technology in our Farm Service Agency offices through the MIDAS program. We anticipate and expect this year we'll begin to see significant positive movement in MIDAS with a completion in 2014.

For those who are looking to expand economic opportunity in rural America, this budget commits nearly \$1 billion to support small-business development and expansion, with particular emphasis on clean and renewable energy opportunities, bio-based manufacturing, and local and regional food systems.

It commits nearly \$7 billion to improving utility services, providing cleaner water, expanding renewable energy opportunities, as well as broadband, the basic infrastructure for rural America. It will support 1,700 community facility improvements and will make homeownership a possibility for 174,000 rural families.

This budget also focuses on our efforts to renew our forests and provide our working lands with a greater resilience to a changing climate. It protects our families through improved food safety. It supports our efforts to provide nutritious food to all Americans, particularly those in need and particularly our children. It focuses and proposes a significant opportunity to extend dietary guidelines for children 0–2. And it increases and improves significantly our SNAP integrity efforts.

Finally, I would say that we're also cognizant of the need for us to contribute to deficit reduction. This budget basically identifies \$39 billion over a 10-year period in deficit reduction. There are issues relating to crop insurance and conservation at water projects that this subcommittee may want to talk about. But I'd like to specifically talk about two briefly.

One is that we are not providing additional funding for payments to Brazil, the cotton dispute that emanated from a WTO ruling. We've been paying about \$140 million a year for the last several years. It is important and, I think, necessary that we get a 5-year farm program to solve this Brazilian cotton problem, so that we stop paying the Brazilians.

Mention has been made of the food aid issue. I'm sure that we'll talk about that further, but I do need to point out that what is being proposed will allow us to feed 4 million more people, probably shaves somewhere between 11 and 14 weeks off getting aid to folks but still provide opportunities for the purchase and utilization of American agriculture. At least 55 percent of the money will be spent with American agriculture.

So I look forward to the opportunities. I'll just leave you with two interesting statistics that I think speak to the challenge that we face in rural America. Thirty-two thousand farm families—32,000 farm families—are responsible for 50 percent of the agricultural production in this country. And that suggests and speaks that there's just been extraordinary increases in productivity and efficiency.

The problem with that, obviously, is that we, obviously, have fewer farmers today than we've had in some time. And that has reflected itself in a statistic that, for the first time, we've actually had a decline in rural population.

So I think the challenge for all of us in this area is to continue to figure out ways in which we can complement American agriculture and productivity to be able to provide opportunities for young people to live, work, and raise their families in rural communities.

PREPARED STATEMENT

I believe this budget basically lays a strong foundation for doing that, and I look forward to answering the questions the subcommittee has.

Thank you, Mr. Chairman.
[The statement follows:]

PREPARED STATEMENT OF HON. THOMAS J. VILSACK

Mr. Chairman and distinguished members of this subcommittee, I appreciate the opportunity to appear before you to discuss the administration's priorities for the Department of Agriculture (USDA) and provide you an overview of the President's 2014 budget. I am joined today by Joseph Glauber, USDA's Chief Economist, and Michael Young, USDA's Budget Officer.

The USDA under President Obama's leadership has taken significant steps to strengthen the rural economy and provide a foundation for continued growth and prosperity. These efforts have had a significant impact in rural America, where the seasonally adjusted unemployment rate fell to 7.7 percent for the third quarter of fiscal year 2012—down from a peak of 9.5 percent in late 2009. In particular, agriculture remains a bright spot in our economy. The resilience of American farmers and ranchers has helped to support 1-in-12 U.S. jobs. Net farm income remains strong, and the farm debt-to-asset ratio is at a record low today. Fueled by new trade agreements with Panama, Colombia, and South Korea, American agricultural exports are surging—with more than \$478 billion in exports over the last 4 years. Our farmers and ranchers achieved these results even in the face of the worst drought in generations, and the uncertainty posed by the lack of a comprehensive, multi-year food, farm and jobs bill. Challenges still remain for agriculture—especially for America's livestock and dairy producers, who continue to struggle today with low margins and high input costs.

With the passage of the Consolidated and Further Continuing Appropriations Act, 2013, we appreciate that Congress provided the funding necessary to avoid a costly and disruptive nationwide shutdown of meat and poultry plants. Congress also enabled USDA to continue providing nutrition assistance, education and other services to improve the nutritional status and health of the total 8.9 million low-income women and children estimated to participate in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). However, the act not only continued the across-the-board reduction for most programs as required by sequestration, it added on two separate across-the-board rescissions for agriculture programs. As a result of these actions, the Department's total discretionary operating budget for 2013 has been reduced by over \$570 million below the 2012 enacted level and over \$1 billion below fiscal year 2009.

These reductions in USDA's operating budget come at a time when our staff are doing more work than ever before. Over the past decade, USDA's agencies have leveraged efficiencies to manage a workload that has increased due to a greater number and complexity of programs and higher participation levels, while staff resources to manage that increased program activity have declined by over 12 percent. For example, the Risk Management Agency (RMA), Food and Nutrition Service (FNS), Rural Development (RD), and Farm Service Agency (FSA) have all seen increases in workload, while staffing has decreased in all of these agencies during that time. The scope and complexity of USDA programs reflects the challenge we face to manage taxpayer dollars effectively and deliver record levels of service.

I am proud of USDA staff for stepping up and getting the job done. Over the past 4 years, USDA has achieved record results on behalf of rural Americans, creating thousands of jobs in the process. We provided a strong safety net for agricultural producers. We expanded trade agreements around the world, while breaking down unfair trade barriers to level the playing field for U.S. producers. USDA enrolled a record number of acres in conservation programs, while modernizing the ways in which we manage forest lands. We provided record amounts of credit in rural America—from farm loans to assistance for rural businesses and families. USDA strengthened food safety testing to protect Americans from foodborne illness. We led the way to create a generational change to improve child nutrition, while helping millions of families put food on the table. USDA research continues to help feed a growing population, while generating \$20 in economic benefits for every \$1 invested.

Meanwhile, USDA has made a comprehensive effort to achieve targeted, common-sense efficiencies. Under the Blueprint for Stronger Service, USDA agencies cut costs and modernized operations to become more efficient. In the past year, agencies

have carried out workforce reductions, closed offices and laboratories, implemented modern cloud computing efforts and taken other actions to continue to lower costs. We have disposed of excess and underutilized property. Agencies reduced expenses for travel, printing, supplies, and advisory contracts. USDA has reduced travel spending by more than 42 percent over 2010 levels. In total, all of those efforts saved taxpayers more than \$700 million.

Despite our best efforts to prepare for additional funding reductions through prudent practices, such as hiring freezes and limiting operating costs, we cannot forestall the negative impact of reduced funding in every area. Our ability to provide oversight and servicing is likely to be impacted by cuts and we will work hard to minimize the impact to the extent possible on farmers, ranchers, and growers while protecting the integrity of the programs.

While we have achieved significant savings, the reductions contained within the 2013 full-year continuing resolution will result in a reduction of some program services. For example, the reduced level of program funding will mean that rental assistance will not be available for more than 15,000 very low-income rural residents, generally elderly, disabled, and single female heads of households, who live in multi-family housing in rural areas. Our conservation efforts will suffer as the Natural Resources Conservation Service (NRCS) will not be able to assist over 3,500 farmers and ranchers in developing conservation plans, which position them for participating NRCS conservation programs. Further, conservation benefits will be lost with fewer conservation plans being implemented as well as fewer conservation practices being implemented with the assistance of mandatory programs affected by across-the-board sequester cuts, such as the Environmental Quality Incentives Program (EQIP). Our State partners will see a reduction in assistance for pest and disease prevention, surveillance, and response, potentially leading to more extensive outbreaks and economic losses to farmers and ranchers. Reductions to Agriculture and Food Research Initiative (AFRI) and mandatory funded research programs will result in 200 fewer grants for agricultural research conducted by both university scientists and private partners in areas such as bioenergy, organic production, specialty crops, and beginning farmer and rancher development.

As outlined above, we have taken steps to deeply reduce USDA's operating expenses over the past 2 years. The spending cuts enacted for 2013, however, severely limit our ability to deliver critical programs for the American people. The President's 2014 budget request would put us back on track to continue the revitalization of rural America, while achieving targeted reductions.

In total, the 2014 budget we are proposing before this subcommittee is \$139 billion, of which \$121 billion is mandatory funding. The budget provides mandatory funds to fully support estimated participation levels for SNAP and Child Nutrition.

It is my hope that Congress will continue to support our efforts to strengthen rural America and provide more certainty for American agriculture by enacting a comprehensive, multi-year food, farm and jobs bill. The farm bill provides for delivery of critical programs by USDA, including programs for farm commodity and price support, conservation, research, nutrition, food safety, and agricultural trade. The next 5-year farm bill should promote Rural Development, preserve a farm safety net, enhance conservation, honor our World Trade Organization commitments, maintain strong nutrition programs, and advance agricultural research. In light of the Nation's long-term fiscal challenge, the legislation should also contribute meaningfully to deficit reduction.

The 2014 President's budget includes a number of legislative proposals that produce savings to reduce the deficit, while maintaining a strong safety net for American agriculture. The proposed legislation would reduce the deficit by \$38 billion over 10 years compared to current baseline spending. The savings would result from eliminating direct farm payments, decreasing crop insurance subsidies, and better targeting conservation funding to high-priority areas. The legislation also proposes to extend some disaster assistance programs, including the Livestock Forage Program (LFP), Livestock Indemnity Program (LIP), for the 2014 through the 2018 crops and provides additional support to dairy farmers through expansion of the dairy gross margin insurance program. The administration remains strongly committed to programs that create jobs, expand markets for existing products, and help develop the next generation of farmers and ranchers. To accomplish those goals the budget proposes an additional \$1.3 billion in mandatory funding to strengthen renewable energy capacity in rural America, continue to create new markets and opportunity for organic agriculture, further promote specialty crops, and train the next generation of beginning farmers and ranchers.

The administration also continues to support SNAP, a cornerstone of our Nation's food assistance safety net. As the Nation continues to recover from the worst economic crisis since the Great Depression, SNAP has provided critical temporary as-

sistance to help families get through these tough times and back on their feet as soon as possible. While participation has increased, the rate of this increase has been declining since January 2010. Both the administration and CBO project that SNAP participation will peak this year and then begin to fall—consistent with past economic downturns. Even as the economy recovers, SNAP will remain a critical support for children, the elderly, and minimum wage workers, who struggle to afford to put food on the table. Program benefits are modest—averaging only \$134 a month—and are scheduled to be cut this fall. A temporary increase enacted around the start of the recession will expire on November 1, leading to an average cut of approximately \$20 per family. The budget once again proposes to extend the availability of enhanced SNAP benefits through March 31, 2014.

Although SNAP operates with a high degree of program integrity, any waste, fraud, or abuse in a program of its size is important to eliminate. As part of our aggressive actions to ensure integrity, last year USDA took action to impose sanctions on 692 stores found violating program rules and to permanently disqualify 1,387 stores for trafficking in SNAP benefits. SNAP payment accuracy rate is at a record high of 96.21 percent, and the 2014 budget includes funds to expand existing SNAP integrity efforts to further reduce payment error, trafficking and other recipient and retailer concerns. We also propose funding to enhance integrity efforts in the other major nutrition assistance programs.

For discretionary programs of interest to this subcommittee, our budget proposes \$18 billion, approximately \$109 million below the 2013 enacted level. That level fully funds expected WIC participation. It provides the funding needed to meet our responsibility for providing inspection services to the Nation's meat and poultry establishments. The budget also includes over \$1 billion to renew all outstanding contracts for rental assistance. It meets the growing demand for farm credit with sufficient funding to serve over 34,000 producers in 2014 seeking to finance operating expenses, to acquire a farm, or keep an existing one.

As I previously mentioned, agricultural research is a proven investment. It is important to increase our investment in research and education, which has proven to be a powerful strategy to boost farm productivity, and has contributed to creation of jobs and enhancing rural economies. As farmers and ranchers face challenges from more frequent and more intense extreme weather conditions, we are focused on providing best practices and workable strategies to adapt to the changes and mitigate the impact. The budget makes a significant investment in the AFRI and our laboratory infrastructure. The budget also requests funding to design and construct facilities to replace the severely outmoded Southeast Poultry Research Laboratory (SEPRL) in Athens, Georgia. SEPRL has facilities that were constructed in 1964 and 1976, and whose limitations now prevent critical, cutting edge research from being conducted. Construction of a new facility will enable ARS scientists to more adequately address emerging or exotic poultry diseases that threaten not only the Nation's poultry industry but also the health of Americans.

The budget places an emphasis on creating new market opportunities presented by emerging markets for biofuels and clean energy and the development of local and regional food systems. The 2014 budget also replaces a number of existing programs with a new economic development grant program designed to target small and emerging private businesses and cooperatives in rural areas with populations of 50,000 or less. The Rural Business and Cooperative Grants Program will improve the agency's grant allocation process and will leverage resources to create greater opportunities to improve regional economies. We will work to expand our efforts to assist the Nation's farmers and ranchers in taking advantage of increased consumer demand for locally and regionally produced foods through on-farm research, support for value-added production, farm-to-school efforts, and other venues. We will continue our market development programs and expand foreign market access for U.S. agricultural exports, including USDA efforts in the Trans-Pacific Partnership and the newly announced Transatlantic Trade and Investment Partnership with the European Union. As organic food production increases and becomes a more critical part of the agriculture balance sheet, we will expand our efforts to protect the integrity of the organic label and expand organic opportunities with our trading partners.

The budget supports our continuing efforts to help all Americans, and particularly school children, make the healthy choice the easy choice. As part of our ongoing efforts to implement the Healthy, Hunger-Free Kids Act, USDA remains strongly committed to helping States and local schools as they successfully adapt to new, science-based nutrition standards in the National School Lunch and School Breakfast programs, which serve roughly 32 million American children each school day. Our focus on healthy eating also extends to the American population as a whole, where we continue to promote the Dietary Guidelines and MyPlate. Our budget in-

cludes additional funding to support the Department's work to expand the Dietary Guidelines to include the 0–2 population.

The President's budget proposal makes tough choices to meet tight discretionary caps. Our funding request reflects efforts to reduce administrative costs and streamline operations and proposes to strengthen program integrity efforts. Funding for selected programs is reduced or terminated and resources are reallocated to targeted investments in priority programs and infrastructure to support sustainable economic growth. Further, discretionary spending is partially offset through about \$1.4 billion of proposed limits on selected mandatory programs and other adjustments.

In addition, the budget proposes to replace \$1.5 billion in funding for Public Law 480 title II international food assistance with an equivalent amount in the U.S. Agency for International Development assistance accounts, including International Disaster Assistance (IDA). The proposed reform replaces title II funding with robust levels of flexible emergency food aid and related development funding that gives the United States far greater ability to provide aid when, where, and in the form that it can be most effective. Provided that all the proposed food aid reforms are enacted, at least 55 percent of the requested IDA emergency food aid funding will be used for the purchase and transport of U.S. agricultural commodities.

Major IT investments will increase program efficiency of our Service Center Agencies. The 2014 budget provides funding for FSA, NRCS, and RD to continue the development and operation of improved IT systems that will allow them to devote more time to working with customers and reducing paperwork.

In conclusion, our budget requests the level of funding we need to provide essential Government services, to build on the progress we have made over the last 4 years to build a stronger America, and to support robust farm income and good jobs in rural communities. It provides the resources we need to effectively deliver the service that Americans deserve from USDA. Any further reduction in funding for administering programs would significantly impair our ability to deliver critical services and would imperil our efforts to manage an increasingly complex workload with fewer workers.

Over the course of 2013, I look forward to working with congressional leaders to ensure we have the resources we need to meet the demands placed upon us as well as achieve passage of a food, farm and jobs bill that will allow USDA to continue to provide a strong safety net, combat poverty, and create even more good jobs in rural America.

At this time, I will be glad to answer questions you may have on our budget proposals.

AGRICULTURAL RESEARCH

Senator PRYOR. Thank you, Mr. Secretary. And let me just start with one of the things I know you're very passionate about, and that's agricultural research. I know that it's a priority of yours, and I'd like for you just to talk to the subcommittee for a moment about why you think that's so important and how you've prioritized it.

Secretary VILSACK. I was in Wisconsin 2 days ago at the Dairy Forage Center. We were talking about dairy cows and forage.

In 1950, when I was born, an average dairy cow produced about 5,500 pounds of milk. Today, the average is 22,000 pounds of milk. And I was told that there's at least one cow that produced 72,000 pounds of milk. That is a result directly of agricultural research and the increased productivity.

The challenge for us, both in America and across the globe, is to increase agricultural production over the next 40 years by the same amount that we have increased it over the preceding 10,000 years in order to be able to meet growing populations.

The only way we're going to do that is by embracing science and investing in science. And unfortunately, for far too long, the agricultural research aspect of our science portfolio nationally has not received the attention that it deserves. So this budget does propose an increase in the external competitive funding.

We're seeing amazing collaborations between universities, land-grant universities, historically Black colleges, Hispanic-serving institutions, and Native American tribal colleges, extraordinary opportunity for us to expand our knowledge and coordinate and leverage those resources with the private sector's investment.

I'm confident that, if given the tools, American agriculture will continue to meet the demand. Internally within our ARS system, we have done a very extensive capital improvement review in order to prioritize the research and the facilities. There are, obviously, difficult decisions that will have to be made concerning some of those facilities. But to the extent that we can improve facilities, build new facilities, modernize facilities, we can also enhance internally what we do with research.

I think it's unlimited, Mr. Chairman, in terms of what we can do. When you see forest products, woody biomass, wood waste, being turned into armor that is stronger and lighter than Kevlar; when you see corn cobs being converted into plastic bottles for major soft-drink companies; when you see grasses producing materials that one day will be used for the body of our automobiles, which is lighter and stronger than fiberglass, you realize the unlimited potential of American agriculture to re-create an economy.

So I would hope that this subcommittee would give serious consideration to that part of the budget.

INTERNATIONAL FOOD AID

Senator PRYOR. Thank you. Let me talk about another change that the administration is proposing, and that's the Public Law 480 program. I know that Senator Blunt mentioned it in his opening statement, and I'm sure he'll have a question or comment about it in addition to that. But the budget proposes to dismantle the Public Law 480 Food Aid program and move to the funding directly to the U.S. Agency for International Development (USAID).

From a historical perspective, this program was created in 1954. The purpose of the legislation, President Eisenhower said, was to, "lay the basis for a permanent expansion of our exports of agricultural products with lasting benefits to ourselves and peoples of other lands."

I still believe this to be an important goal. I oppose the move that the administration is proposing. And I will tell you this, Mr. Secretary, I'm open to sitting down with you and others, and talking about ways that we can reform it, maybe make it more efficient if there are problems in it. I'm certainly open to talking about that.

But I think that it's very important for soft diplomacy that we continue to keep this program here. And just as one example, here's one of the sacks that is used by the USDA and USAID, and you can see several things about it. One is it has a nice American flag on it. They know this is an American product in this bag.

Also, it says, "from the American people," which is I think important that they know that these are American products from the American people.

But also, the thing that I like about the program is these folks who need this aid the most, they're getting the highest quality, best food in the world, grown in this country at USDA standards. They know what they're getting.

They're getting a gold standard of a product, and I think it's very important that we keep that.

In addition, the fact is that these are American taxpayer dollars, and I think these dollars ought to be spent in America on American products. But again, I'm certainly open to working with you on any changes you might suggest.

I know, officially, the position is that the program should go to the State Department, but I just disagree with that. And if you have any comment on that, I'll be glad to hear your comments on it.

Secretary VILSACK. Well, Mr. Chairman, I would say that when the program was started, American agriculture and its relationship to the rest of the world was a little bit different than it is today. Obviously, we were just recovering from a devastating world war, and much of agriculture globally was impacted by that war. We were faced with serious and significant surpluses that would jeopardize and reduce and depress prices.

American agriculture today is faced with the opportunity not just to meet our own personal needs here in the United States but a robust export opportunity, which we are, obviously, involved in.

I think the key here is there are competing interests. One is the issue of budget. Obviously, what is being proposed by the administration will save \$500 million over 10 years.

Second, it's about time. When you're faced with a disaster to the extent that you have to wait 11 to 14 weeks to get the aid that you need, it may be the difference between life and death for some people. So this proposal will cut the amount of time it takes to get disaster assistance to people by 11 to 14 weeks.

And it will also allow us to serve more people.

Still, you're still going to have those bags; you're still going to have that American flag; you're still going to be able to convey that message, because at least 55 percent of what we will, in fact, utilize will be American product.

Obviously, there are competing concerns about this, but when you're looking at 4 million more people, 11 to 14 weeks quicker, and \$500 million in savings, I think it's something that is worthy of discussion and debate.

Senator PRYOR. We'll continue to have that discussion. Thank you for that.

I'm going to go to Senator Blunt next and then Senator Johnson. Senator Blunt.

Senator BLUNT. Thank you, Chairman.

AGRICULTURAL RESEARCH

Just to try to cover as much as we can here, certainly, your emphasis on research is one that I am fully supportive of. I think it's one of the reasons the Department was created, one of the reasons the land-grant college system was created. The 1862 Congress did a lot of things for agriculture that we need to keep improving.

On the research front, you gave statistic that, in the next 40 years, we need—would you give me that statistic again?

Secretary VILSACK. Sure. When you take a look at the need for increasing agricultural production, we need to do what we've done in the preceding 10,000 years, in terms of advancements, in the

next 40 years. In other words, we have to take the advancements in agriculture that occurred over the preceding 10,000 years, all of those advancements, we need to essentially do that again, but we have to do it in a 40-year period not a 10,000-year period.

And the reason we have to do that, obviously, is because we have increased global population. We have the same amount or, actually, reduced amount of land available. And you've got varying climates, which is going to make it more difficult, in some cases, to produce what we've been producing in the past, short of coming up with new strategies for adapting and mitigating the climate.

Senator BLUNT. And that would indicate that world food demand in the next 40 years would do what, double?

Secretary VILSACK. Well, at least double. I think some studies I've seen, Senator, suggest it is as much as a 70-percent increase. But it's, obviously, a significant percentage increase.

We can do this, but we can't do it without a robust commitment to research.

FURLOUGH OF FOOD SAFETY INSPECTORS

Senator BLUNT. Well, that shows we have our work cut out for us then, Mr. Secretary. That's for sure.

On management, I do appreciate the fact that you've done some things that have allowed you not to furlough employees. I'm glad that Senator Pryor and I could work together on the one column, one account, that was so specific that you, frankly, couldn't manage around it, and try to help resolve that situation where if the Federal USDA food safety inspector didn't show up, 500,000 people in the country are dependent on the food safety—the work at these facilities are dependent on the food safety inspector being there just so they can work that day. And that's lots of income to families who really are part of a very hardworking part of our population.

So thanks for your comments on that and for seeing that this has gotten done in the right way.

MIDAS

On general management, MIDAS, you want to talk a little about what you're hoping to accomplish there and how that helps with the local offices, the FSA offices.

Secretary VILSACK. Senator, I was in New Orleans last week looking at the National Finance Center, which basically is over-viewing and reviewing the implementation of MIDAS. Roughly 7,000 of the 10,000 servers that we need for MIDAS to be fully implemented are online.

We are now putting global information system data into that system. We're putting farm records into that system. We're putting acreage information into that system.

We expect and anticipate by the end of this calendar year, roughly 80 percent of MIDAS will be essentially implemented and in the system. Over the course of the next 2 years, all of it will be implemented.

And the view is that basically, at that point, many farmers in this country will be able to communicate with FSA online. They'll be able to fill out the application. They'll be able to track the status of their account online, so that they won't have to be any more in-

convenienced in terms of coming to an office and spending time at an office. They could do this at their leisure and convenience.

This has been a long haul. This Congress and previous Congresses made commitments to MIDAS. We appreciate that. I think we're finally going to see the results of MIDAS.

Senator BLUNT. And my understanding is, whenever you became Secretary, the offices couldn't even communicate, in most cases, with each other let alone communicate with their customers.

Secretary VILSACK. Senator, when I became Secretary, I asked if I could send an e-mail to all of our employees. I was told I couldn't do that. I couldn't send a single e-mail to all our employees. I had to send 11 different e-mails, because we had 11 different e-mail systems.

We now have one system. We've also saved millions of dollars by having that one system. It's one of the advantages and one of the steps that our team is taking to save \$828 million through our administrative services project, our Blueprint for Stronger Service.

And it's the way in which we've been able to manage and avoid some of the more significant reductions in workforce that sequester may cause in other Departments.

RURAL HOUSING

Senator BLUNT. On rural housing, there's a \$40 million reduction in this proposed budget on rural housing. That's, certainly, not because you haven't been able to use the money you've had.

Secretary VILSACK. No, that's true. I think what we're seeing is a conversion. We're the only agency that provides direct loans, and I think you're seeing a conversion from direct loans and guaranteed loans primarily to more guaranteed loan activity.

As I said earlier, we're still going to be able to do 174,000 loans, but this is a situation where we're faced with, and you all are faced with, a defined and finite amount of money. You've got to make choices, and we're moving to a guaranteed program as opposed to putting a lot of resources in the direct program.

SCHOOL LUNCH STANDARDS

Senator BLUNT. The only other question I've got for this round is on school meal regulations. I think schools tell me they had a hard time complying with the regulations on protein and grain. And I think those had been waived for some time now. Are you considering permanently, looking at some more permanent solution than waiving the regulation?

Secretary VILSACK. As you say, we've created flexibility. And I would anticipate and expect that flexibility or something akin to that will be a permanent feature of that program.

Senator BLUNT. And that decision will be made?

Secretary VILSACK. Yes, I think it either has been made this year or is about to be made.

Senator BLUNT. All right.

Thank you, Chairman.

Senator PRYOR. Thank you, Senator Blunt.

Next, we'll have Senator Johnson, then Senator Cochran.

Senator Johnson.

COUNTRY OF ORIGIN LABELING PROGRAM

Senator JOHNSON. Mr. Secretary, thank you for being here. And let me first thank you for your efforts with revising our Country of Origin Labeling (COOL) program to better meet our WTO commitments. I hope that you will maintain a strong and accurate labeling regime as you move forward with the rulemaking process.

BIOENERGY RESEARCH AND EDUCATION

There are also a couple of other issues I would like to discuss with you.

I commend the regional approach that USDA has adopted for supporting bioenergy research and education. In fact, this approach was championed early on by land-grant universities through the grant initiative, which has been a collaborative effort through several Federal agencies and the national laboratories.

I'm disappointed that the administration is once again proposing to cut funding for this important initiative. Can you tell me if you and the Department are supportive of the initiative's use of regionally based competitive grants?

Additionally, given the administration emphasis on the importance of the development of renewable energy, why does the administration propose zero funding for this nationally authorized program?

Secretary VILSACK. Senator, let me briefly comment on both of those issues that you've raised. By May 23, we will actually finalize the COOL regulation, which we think will respond to the concerns raised by the WTO case. And we've already given folks an indication of what that's going to look like. But we will finalize that by the May 23 deadline.

As it relates to bioenergy, we are definitely committed to a regional approach. In fact, we have established five regional hubs throughout the United States. And we're using our AFRI resources to help fund those regional locations. And we've substantially increased our commitment in this area.

These regional hubs are taking a look at feedstock development. They're taking a look at the supply chain alternatives to food feedstocks, alternative nonfood feedstocks, the supply chain and additional research in terms of the efficiency of certain production processes.

So that is underway. And as a result, it would have been duplicative to have been involved in the Sun Grant system. We sort of expanded that, if you will, to all parts of the country. We want this initiative to have access and connection to all parts of the country, to use feedstocks that are most readily available in all parts of the country.

So for example, just as an example, we've invested \$80 million in the University of Washington and the Washington State University to look at aviation fuel, the drop in aviation fuel. We've invested the resources in a hub that involves Penn State, for example, in the supply chain issue.

So this is incorporating what the Sun Grant was doing, and it basically expands on it.

RURAL POPULATION DEFINITION

Senator JOHNSON. USDA has proposed a new definition of rural that would set the population cap for a number of Rural Development (RD) programs at 50,000 people. The water and wastewater programs have historically been limited to communities of less than 10,000 people. The options for these communities are extremely limited, and that's precisely where the RD program should be targeted.

I would also note that the administration budget request would cut this program from \$560 million in fiscal year 2013 to just \$304 million in your fiscal year 2014 request.

Do we have an estimate of how the demand in water programs would grow if the population threshold is raised to 50,000 people? Additionally, how do you square proposing a 40 percent cut to the program while at the same time dramatically increasing the number of eligible applicants?

Secretary VILSACK. Senator, the issue of the rural definition is the fact that we're dealing with 11 different definitions in statute today. And it's quite confusing.

You've got a situation now where I believe 500 communities no longer qualify because we now are using the 2010 census data, because of the increase in populations in some communities for water. And I think 900 communities will lose housing assistance as a result of that definition because of the census information.

My view of this is that we need a consistent definition. And I think it's also important—and I hope the subcommittee thinks about this. It is important, I think, for this country to have a different definition and understanding of what constitutes rural. Because at this point in time, based on the traditional definitions, we have fewer people living in rural America as a percentage of our population in the history of our country.

And the concern I have is if that population and that percentage continues to shrink, it will become increasingly more difficult to have the resources for any of these programs we're going to talk about today. So I think it is important to have a uniform definition.

The fact that you have a uniform definition doesn't mean that you cannot continue to focus the need where the need is greatest. You can create point systems and scoring systems that basically assure those communities that are most in need will get the time and the attention and assistance.

In fact, we have a thing called StrikeForce, which we just instituted in South Dakota, and we now have it in 15 States. It's really focused on the 90 percent of our persistently poor counties that happened to be in rural America. And this StrikeForce Initiative is really designed to really hone down and to try to provide greater assistance to those counties. So I think there are mechanisms to deal with this.

As it relates to the amount of money in the system, this is only in the grant portion of the system. And the reason for that is the interest rates on our loan program are so low that our view is that we're in a position now with the \$1.5 billion of loan money to be able to begin the process of meeting the need that's out there.

The last comment that I would make is, in this new age that we live in of constrained resources, it is challenging us to be creative and innovative at USDA to find other investors who might also be interested in these water projects. It doesn't necessarily always have to be our money that basically builds these facilities.

What we're finding in talking to investment bankers and to other folks who we've communicated to, there's a lack of understanding and appreciation about the deals that are out there in rural America. We just haven't marketed these deals very well.

Just very quickly, one major corporation has, as its social responsibility and business initiative, to reclaim water. They use water in a product that they make. They want to reclaim every ounce of water that they use. They're interested in potentially investing in these kinds of water projects. The investment return may not be as much as they would get someplace else, but it fulfills a business responsibility.

We need to be more aggressive in educating people about where these projects are. It doesn't always necessarily have to be Government money.

Senator JOHNSON. Thank you.

Senator PRYOR. Thank you, Senator Johnson.

Next, we have Senator Cochran and then the list says we go to Senator Tester.

Do we have to do Senator Tester next?

Senator Cochran, thank you.

CATFISH INSPECTION

Senator COCHRAN. Mr. Secretary, thank you very much for your cooperation with our subcommittee.

One of the things that we did in a previous farm bill was to provide authority for the Department to inspect imported fish that was coming into the country, particularly from southeast Asia. The concern was that some marketing firms and stores were advertising as farm-raised catfish, and a lot of our aquaculture producers in my State and elsewhere around the country feel that this law has not been aggressively implemented.

What is your plan, if you have a plan, to try to put action behind the words that are contained in our farm bill?

Secretary VILSACK. Senator, I certainly understand the frustration of your farmers who have raised this issue with you. And I think, frankly, we continue to grapple with precisely what the definition of catfish is.

I assumed I knew what that definition was when I took this job. I now find out there are 39 different varieties. And we're still trying to work our way through that definition, and it's not as simple as it would at first blush appear.

We're obviously working on this. In the meantime, obviously, fish are being inspected by FDA, but I'm going to commit to you that we're going to continue to work on this. And we understand the frustration. But it is complex, from a scientific standpoint. And it, obviously, has significant implications domestically and from a trade perspective.

SCHOOL KITCHEN EQUIPMENT

Senator COCHRAN. One initiative that the administration has pursued to help reduce the cost of school lunch programs is to modernize the kitchen and cafeteria equipment. And there's been a Federal grant that our Governor has used to replace deep fat fryers with some combination oven steamers and other ways of getting to the children more nutritious and better prepared school lunch meals.

Is your administration aware of this initiative? And could it be replicated so that it becomes a nationwide program to try to improve the quality and nutritional value of the foods that our children are having at school?

Secretary VILSACK. Senator, absolutely. This budget that we're proposing suggests a \$35 million commitment to upgrading school equipment for that very purpose.

We had a \$35 million appropriation this year, but it was reduced during the sequester discussions. And it's now down to \$10 million. But we are absolutely committed to this.

Frankly, what we're seeing is that food producers are reformulating their food. Again, I was at a food company the other day. It makes extraordinarily tasty food that is in a pouch that you just put in boiling water. And it's fresh, and it's spectacular.

So we want to, obviously, encourage more of that. And we want to get away from just centralizing production and then having it bused or shipped from a central kitchen to a variety of schools. We'd like to be able to give those schools the capacity to prepare food on site.

This would also I think help us extend our summer feeding program. We feed about 2.5 to 3 million kids in our summer feeding programs across the country. But we feed 21 million free and reduced lunch kids during the school year, so there's issue there during the summer months. And we're trying to figure out strategies to provide those youngsters nutritious meals during the summer as well.

Senator COCHRAN. Thank you for your leadership on that.

Senator PRYOR. Thank you.

Senator Tester.

AMERICAN AGRICULTURE

Senator TESTER. Thank you, Mr. Chairman.

And I want to thank the Secretary for being here today. With some of the questions you have already answered, I appreciate the work that you've done on COOL, and I would tell you that I am personally excited about the online capabilities, potential online capabilities. I've been able to connect with the FSA office, and I would hope, even though I love every one of the staff that happens to be in Chouteau County, I would hope that it wouldn't create a workforce increase but actually more efficient once it gets implemented. So thank you for that.

You know it was about 40 years ago, when you and I were much younger, much better looking, there was a Secretary of Agriculture that made the statement, get big or get out. I have listened to your

testimony this morning, and I don't think you have that same vision for agriculture.

You've talked about opportunities for young people. You've talked about how we've become fewer as a percentage of the general population. And if that continues to shrink, that's a bad thing.

My question is, is this budget put forward—and by the way, I've got to tell you I've vacillated on this. The farm bill has done some good things and it's done some things that I've questioned over the years. And I have vacillated back and forth whether it's been a net positive or a net negative, depending on whether we're in drought or not.

But the question really becomes, this budget that you put forward, has it done anything different than previous budgets as far as enhancing opportunity for young people to get into agriculture in one fashion or another, whether it's production agriculture or adding value or whatever?

Secretary VILSACK. I think it does, Senator. I think it does in a variety of different ways.

First of all, it increases the commitment to the Beginning Farmer and Rancher Development Programs. Second, I think it understands the necessity of us expanding market opportunities. Production agriculture is an extraordinary story, and the export is an extraordinary opportunity. But we need to branch beyond that if smaller producers are going to have a shot. That's why we commit ourselves to an expansion of local and regional food systems, why we increase farm-to-school programs. It's why we have our specialty crop block grant to create opportunities for smaller producers to get in business. It's why we continue to expand access to farmers markets through the SNAP program and through the WIC program. That's an additional market opportunity for smaller producers.

It also makes a significant commitment to bioenergy and the bio-based economy. The reality is there are 3,100 companies today that are manufacturing something that's bio-based. We need to extend that. We need to expand it. If we do, we create market opportunities for plant material, crop material, livestock waste. That creates additional markets.

So this budget does indeed support all of that.

Senator TESTER. Well, I just want to say I appreciate that perspective. And I hope every day when you come to work, you keep that perspective in mind as we go forth, because with rural America drying up, I don't think it's a net positive for this country.

And I always use the example, when I graduated my school in 1974, I'm getting old, had 165 kids. That same high school today has less than 60. And that's not something that's particular to north central Montana. I think you could say the same thing for many of the schools in Iowa, certainly can for all the schools in Montana that are small.

Secretary VILSACK. I think that the key here is for us to understand that it's not about tax-supported institutions that we need to keep in those communities. It's about taxpaying institutions.

Senator TESTER. That's correct.

Secretary VILSACK. Because if we have those, then we're going to have the tax-supported institutions.

And that's why this four-cornerstone philosophy that I have of rebuilding the rural economy is important: production agriculture and exports, local and regional food systems, conservation and outdoor recreation, and the bio-based economy. Those are the lynchpins, I think, to rebuilding a rural economy that will support communities.

TIMBER SALES

Senator TESTER. I want to go a little bit off this subcommittee but I know the chairman will let me do this—a different subcommittee, but your agency, and that's the Forest Service.

In this budget, it effectively cuts about 15 percent out of timber sales targets, which is true. And you've been in Montana, and I appreciate you coming there. And I think at this point in time, we're seeing a forest that is in crisis. And there are trees that need to be cut, need to be cut right, sustainably and all that. And we can do that. That's not a problem.

I think we need to increase timber harvest to meet the hazardous fuels out there, not reduce them. I know you're in a tough fiscal climate, but are there ways to boost timber supply in a way that keeps our infrastructure going, and we manage our forest in a proper way as we move into this 21st century when you see the beetle kill and climate change and all that stuff going on?

Secretary VILSACK. Senator, I want to make sure, the 15 percent number that you're referring to is actually in this existing budget as a result of the sequester, and as a result of the additional 2.5 percent cut that you all put on top of the sequester for this agency.

So we had to——

Senator TESTER. We'll take the rap.

Secretary VILSACK. Okay.

Senator TESTER. We should take the rap. The question is, how do we fix that? Do you have any——

Secretary VILSACK. The reason I say that is because we were on track to actually increase timber sales. We have announced a desire to go from 2.4 billion board feet being treated to 3 billion board feet being treated. We were on track to get there, to treat more. But now we take a step back. But we're going to continue to take a step forward.

In response to your question, the Forest Service is investing in wood energy opportunities. The Forest Service has its wood products lab in Wisconsin that's creating new opportunities.

I think there's an extraordinary chance here for us to deal with this. And let me tell you precisely what we're doing, and this is very, very important. We're trying to link up universities that talk about clean energy with the opportunity to have cogeneration facilities that are wood burning. You combine that with long-term stewardship contracting. You essentially have a ready supply of wood. The university gets a cheaper cost of heat and electricity as a result.

And we're trying to create those kinds of partnerships at USDA through the Forest Service.

We also are working with utility companies to recognize that they have a vested interest in helping us clear out those forests, because they have a multimillion dollar investment. Transmission

lines are at risk. They have a multibillion-dollar potential liability if fire is a result of one of those transmission lines.

And we're working with corporate America that has a variety of interests in maintaining more resilient forests.

So we are involved in all of that. The fact that we have less money in a particular line item doesn't mean that we're not going to get more work done.

Senator TESTER. I appreciate that. We'll work to give you the tools so you can do your job.

Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Senator Tester.

Next, we have Senators Merkley, Udall, and Moran.

Senator Merkley.

GENETICALLY MODIFIED ORGANISMS

Senator MERKLEY. Thank you very much, Mr. Chair.

And thank you, Mr. Secretary. And I wanted to mention I appreciated so much your help when the Klamath Basin enduring a terrible drought several years ago, 2010. And both you and Secretary Salazar were quick to be of assistance.

The bad news that I have to report today is that they have yet a worse drought, the worst ever to this point in time in this season. And so I may be carrying on the conversation with you and your team again.

I wanted to specifically ask about the Monsanto Protection Act, the rider that was included, the authority to overwrite a judicial ruling regarding the planting of genetically modified organisms (GMOs). In my town halls, people have come to every single town hall saying we do specialty crops here in Oregon, specialty seeds, we're worried about cross-contamination—for example, from GMO canola to broccoli or rutabaga seed.

And the concept behind this rider, is that something the Department of Agriculture endorses?

Secretary VILSACK. We didn't ask for the rider. And we have questions and concerns about the legality of it, as it relates to temporary injunctions and things of that nature.

But let me answer your questions more fully. The USDA position on this is we believe strongly in coexistence. And we have created a program we call AC21 where we put organic producers and GM producers in a room, and we basically said, what will it take for you all to get along better than you do today?

They came out with a series of recommendations. Those recommendations range from making sure that we continue to have a solid germplasm bank to ensure that we always have the capacity to restore something that could potentially have been impacted, a potential compensation arrangement or process for those that do suffer from cross-contamination, more research on precisely gene flow. This is all going on at the present time within USDA in an effort to try to create a world in which, if you want to be an organic producer, you can do so; if you want GM opportunities, you should do so; and an understanding that good stewardship can make good neighbors.

So we're looking at ways in which we can promote coexistence.

Senator MERKLEY. I think that's exactly the right approach. And there are complicated issues that are raised, that get struggled with—how far does pollen travel, what is the risk of cross-contamination, and so on and so forth. But I think the concept behind this rider, which basically said, it can be planted regardless of concerns in the normal process, interrupts that strategy of cooperation and working out the coexistence.

And I look forward to continuing this conversation. This rider is going to expire later this year. There's going to be a conversation about whether it goes forward further. And it's just huge concern by our Oregon seed producers of the impact on their markets and organic growers.

ELECTRIC LOAN PROGRAM

I wanted to turn to the Rural Utilities Service (RUS) Electric Loan Program. This program, as I understand it, the Department is planning to create a version through regulation that does low-cost loans for energy saving renovations. This is very consistent with what the U.S. Senate endorsed by passing the Rural Energy Savings Program in the farm bill that went through the Senate. And so, I applaud that, encourage that.

I did want to express a concern about the overall, the larger, Electric Loan Program, which helps fund transmission lines, capital infrastructure, and so forth. There's concern on some of my electrical co-ops that with the reduction in the size of the program, I believe it's going from \$7 billion to \$4 billion for direct loans, that three-fourths of the lower number, of the \$4 billion, are set aside for renewables. Of course, I'm a big supporter of renewables.

But I want to make sure, on behalf of electric co-ops, that there's still the ability to invest in the transmission lines as well. Is this an issue that has been brought to your attention? And any concerns about the support for our rural electric co-ops being able to build their infrastructure?

Secretary VILSACK. It has been brought to my attention and, honestly, Senator, we honestly believe that there's a good balance here. And we'll try to strike that balance.

The reality is, if we're concerned about the impact of varying climates on production, and we're convinced that that is related to greenhouse gas emissions, and I think there's pretty good science to suggest that it is, part of the strategy and challenge will be for us to reduce those emissions. And one way to do that is by making sure that we invest in renewable energy resources.

It also creates enormous new opportunities, particularly in agriculture and in forestry for bioenergy opportunities. So for that reason, we're focused on trying to encourage folks to think differently and to think creatively about the opportunities in renewable energy.

Senator MERKLEY. And I completely salute that. But as electrical co-ops invest in transmission lines, if the loan program runs out of funds, if you will, to help support that, is there a way to come back and try to expand the size of that program to help support the transmission capabilities?

Secretary VILSACK. I mean, obviously, there are ways for the—you all can make decisions about that. But I would say that it goes

back to the point that I made earlier which is, in this constrained resource environment, it's challenging us to think differently and to think creatively about partnerships and others who might be interested and able to invest in these projects that we've never thought of before.

And I think that there's a lot of opportunity out there. In talking to folks, investment bankers in particular, they had no idea about these program. They had no idea about the opportunities in utilities, for example. And they're interested, and so we're going to try to, literally, to the extent we've got a waiting list or to the extent we have a need that we're not able to meet, we're going to try to shop and facilitate that need being met by a private sector or non-profit sector partner.

FEDERAL RESEARCH GRANT PROGRAMS

Senator MERKLEY. Thank you. And in my final minute, I wanted to mention how important the Federal grants have been for the Northwest Center for Small Fruits Research. They are one of those regional research centers that really focus on the particular challenges in the Northwest.

And they are finding that the current format of the Federal research grant programs, such as the format of the Agriculture and Food Research Initiative and Specialty Crop Research Initiative, seemed to have been adjusted in ways that only allow access by very large-scale research institutes that don't necessarily have that regional focus.

And so, that's a real concern on their part. And I wanted to raise it, put it on your radar as a concern for our smaller, regionally focused research centers.

Secretary VILSACK. Senator, I appreciate you bringing that to our attention. That's surprising, because what we're actually trying to do with this program is to create more opportunities for collaboration in which smaller facilities are able to align themselves with other universities to do cooperative and collaborative research.

We'll be happy to take a look at that particular issue as it relates to your area and take that concern back to the office.

Senator MERKLEY. Thank you very much. I look forward to following up on it with you. Thank you.

Senator PRYOR. Thank you.

Senator Udall, then Senator Moran.

Senator UDALL. Thank you, Mr. Chairman.

FARM SERVICE AGENCY PAYMENTS

And, Secretary Vilsack, let me just thank you for being so on top of the forest fire situation. You visited my State of New Mexico when we were right in the middle of the Little Bear fire right down near Ruidoso. That was a fire that destroyed 254 structures in the summer 2012, 245,000 acres.

And I think you saw the remarkable thing was how dedicated your people are all the way from the incident commanders down to the people that are fighting fires. And we're facing another, because of the drought, a very severe fire season.

As your map shows here, New Mexico is right at the center of the target in terms of the drought. And so we know that you're

going to stay on top of that and make sure that the personnel and that the airtankers and all of that are in place.

I wanted to ask about the FSA payments. And I wanted to thank you for getting the Farm Service Agency payments back online this week. The last several years have been very difficult for producers in New Mexico. So the payments have been vital to keeping producers afloat.

The freeze in payments this spring has been hard on many people in New Mexico, especially the freeze on the Noninsured Crop Disaster Assistance Program (NAP) payments. This is another example of the terrible toll that sequestration is taking on our country.

Because of the time it took to get these payments back online, I know many of my constituents are not confident that the payment is actually coming. Will you confirm for me and my constituents that the FSA payments are indeed back online, particularly the NAP payments?

In short, Mr. Secretary, is the check in the mail?

Secretary VILSACK. Effective today, it's online, Senator. And the reason, frankly, that it was because we were uncertain about the impacts and consequences of sequester, and didn't want to create more of a situation where payments went out the door only to have folks having to refund or return them.

And so, beginning today, we're back online and payments will be made in short order.

LIVESTOCK DISASTER PROGRAM

Senator UDALL. Thank you very much.

Over the last 3 years of drought in New Mexico, there's been a 50 to 60 percent decline in the cattle population in my State. The impact of this ongoing drought, it obviously has been very terrible in New Mexico.

And as you know, several Senators have been working for months to try to get livestock disaster programs that expired in 2011 renewed and retroactive. And I'm pleased to see that the President's fiscal year 2014 budget includes a proposal for renewal of the livestock forage program and the livestock indemnity program for 2014 through 2018.

We expect the farm bill to come to the floor for a vote in the coming weeks. If we are able to renew these programs with retroactive authority, would the USDA be able to carry out back payments? What would this mean for producers in New Mexico and other States who've had several years of drought and loss? And what do you expect the need is nationwide for these programs?

Secretary VILSACK. Well, I think the need is reflected in the budget request, Senator. This is something that I think needs to be done.

It's unfortunate the disaster assistance was not fully funded in the previous farm bill, and that it was allowed to extinguish. We're very supportive of continuing this.

What it means to producers is, obviously, resources, and what it means is reassuring that banker that there's a safety net in place that will make it a little bit easier for that producer to get the cred-

it that he or she needs to be able to continue or expand their operation.

WATER AND WASTE PROGRAM

Senator UDALL. Thank you. Mr. Secretary, coming from a State where water infrastructure is a priority need in almost every community, it's unsettling to see the proposed cuts in the President's fiscal year 2014 budget. And I'm especially concerned about the cuts of almost 50 percent to grants and loans for water and wastewater infrastructure for tribal communities and colonias. Even the basic need for running water is not being filled in many of these communities in New Mexico.

I'm also concerned about the cuts to the Circuit Rider Program for rural water systems and the wastewater and waste disposal loans and grants in the RUS.

Could you explain the logic behind these seemingly disproportionately high cuts to water infrastructure? What kind of impact do you expect these cuts would have on rural communities, including tribes and colonias? And has there been any decline in the need for this kind of water infrastructure funding?

Secretary VILSACK. Senator, you all will be faced with the same set of decisions that we made and had to make in terms of the budget. You're given a number, and you've got to fit all of the competing needs and interests within that number.

In a perfect world, we'd have more money to spend. We're not living in a perfect world. We're living in a very imperfect world. So obviously, choices have to be made.

Our view is that the loan interest rate on the loan portion of the water program does provide us the capacity and, for many communities, the opportunity to improve their water systems.

The need is significant. There's no question about that. That's why we have to look at ways in which we can extend and leverage our resources effectively. I've said earlier about our efforts to reach out to other investors who may potentially be able to provide opportunities to these communities.

You mentioned the colonias, in particular. I will tell you that our StrikeForce Initiative is focused directly on that area and has also been extended to New Mexico. So many of the most impoverished areas are getting more attention and more assistance than ever before.

We're just dealing with a very difficult budget. Do you take money from housing to put in water? Do you take money from farm programs to put in water? Do you take money from nutrition to put in water? Do you take money from Rural Development and business growth? It's hard.

And so my view of this is, you're not going to be able to meet all the needs to the extent that they need to be met, so we've got to think creatively. And one way we're going to think creatively is going to nonprofit foundations and saying, you invest a lot of grant money in communities, what about your investment portfolio? Where are you putting your business investments to generate the income that you grant? Can you consider putting it in rural America? Investment banks, are you aware of these utility opportunities in rural areas? Corporations, are you aware of the opportunity for

you to meet a social responsibility requirement by investing in rural areas?

I think we have to think broadly about where resources can come from. You're going to face the same difficult decisions we've faced, and we'll see how you all do.

Senator UDALL. Thank you very much. And I know you come from a rural State and you feel these issues a lot, and I know you're working hard on them. Thank you very much.

Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Senator Udall.

Senator Moran.

RISK MANAGEMENT

Senator MORAN. Mr. Chairman, thank you.

Mr. Secretary, thank you for being here. The last time we had this hearing, nearly 1 year ago, you were leaving for Manhattan, Kansas, to speak at the Landon Lecture at Kansas State University. I was not there, but thank you for speaking. And the reports were that you were well-received, and I hoped that you experienced Kansas hospitality in your visit to our State.

I want to express my appreciation to you in your work on the Pryor-Blunt amendment in regard to meat inspection, something critically important to our country, to its consumers, but, certainly, important to Kansas and livestock producers and the meatpacking industry that is so prevalent in our State.

And I know a number of questions and comments have been made in regard to agricultural research. I would like to emphasize to you its value and its importance, its long-term benefits to agriculture and to rural communities. And especially, I believe I said this last year, to make certain that, sometimes the research that gets a lot of attention is a bit more exotic, but to remind you or to request you to always keep in mind the importance of agricultural research related to productivity and yields in crops that we currently grow, the value of making certain that we know how to curtail the damage that occurs with insect and disease, drought.

We've had a lot of conversation and just the recent few questions about the circumstances we find ourselves in because of weather. And there is a Pryor-Moran caucus in regard to water. Senator Udall and I have been involved, since our days in the House, in regard to the Ogallala Aquifer.

Water is, in so many ways, front and center to the future of rural America, and I would encourage you to, both on the agricultural research side, but on the water resources aspect of the Department of Agriculture, continue to provide the necessary infrastructure and support.

In regard to that drought, it's dramatic and the consequences are tremendous. It's long-running in Kansas. And, in particular, I mean, I'd be glad to hear any thoughts you have about efforts at RMA to improve the crop insurance product for the cultivation side of agriculture.

But we are, certainly, failing our livestock producers. And, certainly, I know that the issue of ad hoc disaster is something that we can pursue. But I've always believed, going back to my days in the House and chairing the Subcommittee on Risk Management,

that a better product within the crop insurance delivery system for all crops, but also on the livestock sector, is something that needs to be actively pursued. And I'd be glad to hear your thoughts and your assurances that that's the case at USDA today.

Secretary VILSACK. Senator, we are, obviously, in the business of continuing to expand crop insurance offerings in a variety of areas of agriculture. And we're trying to do it in a way that is thoughtful and consistent with good fiscal decisionmaking.

In the meantime, we are obviously faced with a specific challenge today from our livestock industry and from our dairy producers. And so that's why we are proposing and suggesting a continuation of the Disaster Assistance Programs that were established in 2008 farm bill. And our hope is that that gets done either in the context of this budget and or a 5-year farm program.

We are proud of the fact that we have expanded the number of crop insurance offerings. And we're going to continue to look for creative ways to address all of the challenges that our producers face.

Senator MORAN. Crop insurance is particularly important to farmers on the high plains. Agriculture is clearly the significant component of our economy, but the weather is often not our friend.

And I've visited with many producers across the country where crop insurance is less of a viable option for them. And it seems to me that the goal of making certain the crop insurance is an important tool available for farmers geographically and commodity-wise is important. It is one of the things that makes it more difficult to garner the support across the wide array of agricultural interests here in Congress. It's that crop insurance product is not as useful in some places in the country and for some crops.

And while you would expect me to advocate on behalf of a crop insurance program that works for Kansans, I also recognize its value in bringing all of agriculture together to support a program that benefits the entire agricultural economy across our Nation. And I look forward to having conversations with the administrator of RMA as we have had over the years.

Let me switch topics, and let me also say that I hope to be helpful to you and be helpful in the cause of the livestock disaster programs inside the farm bill, outside the farm bill, if necessary. I'm hopeful that we are able to accomplish what we didn't accomplish last year with the passage of a long-term 5-year farm bill, and I hope we do it sooner rather than later.

And I can't imagine there's any disagreement from the Secretary. Secretary VILSACK. Amen, Senator.

BROADBAND PROGRAM

Senator MORAN. Thank you.

Let me change topics. In October 2011, the Federal Communications Commission (FCC) entered its order in regard to reforming the Universal Service Fund. I'm not here necessarily to debate the merits of their order. But there are tremendous consequences to that order in your world, at Rural Utilities Services.

And you filed an ex parte with the FCC. And one of the things that caught my attention in reviewing that is the demand for RUS

loan funds dropped to 37 percent of the total amount of loan funds appropriated by Congress in fiscal year 2012.

What I think is happening, and I've been very concerned about this FCC order and its consequences upon the expansion of broadband available to areas that don't have broadband or options in regard to broadband, but also very important is the retroactivity of this order and its consequences upon companies, particularly small telephone companies, that deployed broadband but their revenue stream to finance the deployment and, in many instances, its ability to repay the Rural Utilities Services money that was loaned to them to accomplish this purpose is now greatly diminished.

And I'm interested in that 37 percent number, but I would assume that—and I know this in part from conversations I had with those phone companies, is that, one, they're making the decision about we don't know how to pay for what we've already deployed, and how to repay loans that are already existing; and two, is this order going to be changed in a way that we can continue to deploy broadband in places that we don't have broadband in the future.

So if you would capsulize for me or explain to me where you are in your—you've had conversations now with the FCC, with Chairman Genachowski. Have we got anything in the works, and again, I think I asked about this topic last year, has anything developed? Is anything developing that can give me some comfort that this effort that was started by the administration a number of years ago to deploy broadband is—that the harm that has come from the FCC order is being overcome?

And second, where are you in the ability to see that your loans are going to be repaid to the Rural Utilities Services?

Secretary VILSACK. I've, actually, kept my eye on the portfolio issue. Let me address that, first and foremost.

And the good news is that we have not seen, at this point, a significant level of concern in terms of the ability to meet prior obligations, which is good.

And in those cases where there has been an issue, we have been working with the FCC to create some kind of waiver that will allow the draconian impact on a particular company to be less draconian.

So we have been engaged in those conversations, and the FCC has been willing, up to this point, to be granting waivers in those circumstances.

We have had a conversation with the chairman, and obviously, he's no longer there. But we did express a concern for the need to amend the Connect program that they have, to create a bit more flexibility for rate of return folks to be able to participate in that.

They put \$300 million out. It wasn't fully utilized, and we think there's an opportunity there to potentially assist us in expanding.

And we have engaged in a more meaningful conversation, as a result of my discussion with the chairman, about how we might be able to better focus our resources in areas that the FCC and the regional bells are probably not going to have much interest in.

We're going to continue to invest in this. We're going to continue to figure out ways to expand it, because we realize, as you do, how critical this infrastructure is to the survival of businesses and communities in rural areas.

And our hope is the FCC takes a bit more of a flexible position than they originally took.

Senator MORAN. I hope to be able to pursue this further at some point in time with you, Mr. Secretary. Thank you for answer.

Your response to Senator Tester about needing to make certain we have people who are paying taxes, this is one of those issues that create the opportunities for us to create business and opportunities in which we have taxpayers supporting the services that are necessary in rural communities. In the absence of this, the absence of the small rural telephone companies' ability to provide these services, your goal and my goal of seeing a more prosperous rural America is significantly diminished.

Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Secretary VILSACK. Senator, I would also say that we have also had conversations with the folks at AT&T and Verizon in terms of encouraging them to be more aggressive in their efforts in this area as well. And they've given me some assurance that they are focused on this and are going to try to take advantage of these programs to expand broadband.

So we have, in a sense, lobbied, if you will, that opportunity as well.

Senator MORAN. Great to hear. Thank you.

RURAL BUSINESS PROGRAM CONSOLIDATION

Senator PRYOR. Thank you, Senator Moran.

We have one Senator on the way who wants to ask questions. What we'll do is a very brief second round. Let's let all of us who want to ask questions, just ask one or two more.

Actually, I have several questions for the record that are follow-ups from some of the questions that Senators asked. But as we're waiting on our colleague to arrive, let me go ahead and ask you, Mr. Secretary, about something I like in concept, which is the consolidation of grant programs.

I think you're taking five grant programs and consolidating them into one. I love that concept, and I think we would all like to know more detail, why you're doing this and how much you think you can save and how that efficiency is going to help.

Secretary VILSACK. We're taking five smaller Rural Development programs and combining it into one because we think by doing so we can create a greater accountability and establish a solid standard relating to jobs created and economic opportunity created by doing this.

When you have five smaller programs, obviously, you get five different administrative responsibilities. And oftentimes, it becomes difficult to keep track of every loan.

But this one program will allow us to set standards then hold grantees accountable to those standards. And we think, in the long run, it will encourage more regional thinking, and encourage and expand economic opportunity, and give us more flexibility.

Senator PRYOR. Great.

Senator Hoeven, if you're ready, I'll go ahead and call on you and let you do your first round of questions. And we'll finish up with our second round.

CROP INSURANCE PROGRAM

Senator HOEVEN. Thank you, Mr. Chairman. I appreciate it very much.

Mr. Secretary, good to see you again. The first question I have is crop insurance in the budget. You show a \$12 billion reduction in—excuse me, \$12 billion reduction in crop insurance. And what my farmers are telling me, not just from North Dakota but from around the country, is that crop insurance is their absolute number one priority as we go into writing the new farm bill, which we hope to be in markup in our Agriculture Committee next week for the Senate.

So crop insurance, number one priority for farmers. How come the \$12 billion reduction in your budget submission?

Secretary VILSACK. Well, we're, obviously, trying to deal within a constrained resource environment, and there are a couple of things that we are suggesting. We took a look at crop insurance and tried to determine what kind of rate of return insurance companies would need in order for this program to remain viable and fiscally sound. What we found was a 12-percent return on investment was sufficient and adequate.

Currently, producers and companies are receiving somewhere in the neighborhood 14 to 15 percent return on investment over the long haul. So we thought there could be a slight adjustment there.

There are circumstances when the Government is subsidizing more than 50 percent of the premium, in some cases, more than 60 percent of the premium. And we felt that there could be some slight adjustment in terms of that relationship between the taxpayer, the farmer, and the company.

And we felt that there were some adjustments that could be made for products that are focused on price protection.

So that's where the resource comes from. We don't think it jeopardizes the availability of the product or the need for the product. We think it's just a rebalancing of the relationship between the taxpayer, the farmer, and the company.

Senator HOEVEN. I'd point out that in the baseline, \$64 billion in direct payments is going away. So we'll be taking the direct payments out of the farm bill. The farm bill will be saving somewhere between \$23 billion and \$35 billion based on Senate versions and House versions that made it through the respective Agriculture committees last year.

That's more than sequestration would call for. And so agriculture is stepping up and providing budgetary savings. It's going to be very important that crop insurance is there for them in a solid way going forward when we're making these other reductions.

My next question is, I had Brandon Willis out in our State, and I appreciate very much him coming out.

The issue we worked on is right now under prevented plant. You have to plant and harvest a crop 1 out of 4 years in order to be eligible for prevented plant under crop insurance. But there are other rules that make prevented plant very, very confusing.

He's agreed to help us work through that, which we appreciate very much. We'd ask your thoughts and hopefully your commitment to help in that regard as well.

Secretary VILSACK. Senator, we have a lot of confidence in Brandon to administer the RMA program in a way that reduces inconvenience or inefficiencies in the program. One of the reasons that I put Brandon in that position was because he understands the crop insurance program very well and is committed to making it work.

And you have my commitment to assist him in any way I can to create a more efficient and more effective program. It goes back to Senator Moran's question and concern about the need for us to have an RMA Administrator that understands and appreciates the need to constantly look at ways to improve the product or to expand the product.

SCHOOL LUNCH STANDARDS

Senator HOEVEN. Well, Senator Moran is a very insightful Senator. And so, I think that's remarkably good advice. I know you do as well.

The final question I have for you is, the school lunch program, the chairman of this subcommittee and myself have put forward legislation, which we think is helpful. It provides some more flexibility for the school lunch program.

And it doesn't change the calorie limit because we all want to address childhood obesity, but it does provide some flexibility in terms of the amount of proteins and the cereal grains that students can receive, if they're older or taller, or just have different activity levels and physical needs.

And so I think it provides real flexibility for what we're all trying to do, and I would ask for your help and support with that.

I think we're putting it forward, and, certainly, the chairman can speak for himself, but it's very bipartisan. We're putting it forward with the idea of working with the Department to have the best possible product.

We actually have the endorsement of the school nutritionists nationally. And so I just ask for your willingness to help us with that legislation.

Secretary VILSACK. Senator, I think that what you and the chairman, and I suspect Senator Blunt in an earlier set of questions, I think you'll find that what you're proposing is pretty consistent with what we're currently doing and that we had discussion earlier about the need to make those kinds of flexibilities more permanent, which we agree with.

Senator HOEVEN. Yes. I thank you for the flexibility. You came out after we'd sent a letter and you responded. You were very responsive to it. Now we're just trying to make sure we've got a permanent solution in place, and we want to work with you on this.

Secretary VILSACK. Fair enough.

Senator HOEVEN. Good. Thank you.

Senator PRYOR. Senator Blunt would like to ask a few more questions.

Senator BLUNT. Thank you, Chairman.

We got a call this morning, Secretary, from one of our dairy farmers who has land in two adjoining counties. And they said they weren't able to receive their full NAP payment because FSA told

them that you have to figure the loss in two different counties, and that isn't linked up yet.

Is this a problem we can take care of? Or is it already taken care of? The back online problem should solve this?

Secretary VILSACK. Clearly, the payments are back online. Whether or not it addresses your particular situation, I don't know, but we will find out today if it does.

Senator BLUNT. All right, thank you.

Secretary VILSACK. If it doesn't, we'll try to get that result.

GENETICALLY MODIFIED ORGANISMS

Senator BLUNT. Well, that's in two counties and apparently that's the problem. At least that's why they were told that they weren't getting their full payment yet.

I didn't intend to ask about this, but I want to be sure I understand it. Mr. Merkley brought up the GMO issue.

And as I understand it, and of course, that was in the House bill and we accepted it in an earlier decision to put those two bills together some time last year. But as I understand what that bill does is it—or what that bill did, and as Mr. Merkley pointed out, it only goes through September 30, it would give the Department the authority to do what essentially you did in 2010.

What happened in 2010 was a court said that a crop that you had allowed to be planted, a deregulated crop, sugar beets at that time, which, certainly, Mr. Tester knows more about sugar beets than everybody else here put together. By the time we got to 2010, 95 percent of all the sugar beets in the country were this new strain of sugar beets.

And a judge said in August 2010, much too late to do anything different than you've done that year, that USDA had made a mistake for environmental reasons, not for food safety reasons but environmental reasons, you hadn't check in that boxes, and this product couldn't be harvested or sold.

As I understand this provision, it gives you the authority to figure out how to let that one crop, that annual crop, be harvested and sold unless you agree with the court. And if you agree with the court and aren't going to appeal, you don't have to do this at all.

And by the way, by February 2011, a higher court had said that's nonsense and of course this crop can be harvested. But I think, by then, you had done some things that I'm told this provision just gave you the authority to do if it ever came up again.

Would you want to respond to that?

Secretary VILSACK. Sure. Your recitation of the rather complex situation with sugar beets is absolutely correct.

I guess my attitude about this is that I don't think it was necessary. And this is a delicate conversation we're trying to have within agriculture between those who are strongly committed to new technologies and genetically modified efforts, and those who feel very, very strongly and passionately about organic or alternative or different ways of agricultural production.

And I'm trying to create a conversation between these two ways of thinking, which is a very difficult conversation, because people think passionately about this.

And to a certain extent, I think what happened when that amendment was passed or put in is it created a concern that people were trying to slip something through at the last minute without much debate. And it makes that conversation just a bit more difficult than it needs to be.

And as you point out, it doesn't necessarily do anything I can't already do. So my view of this, why stir up the pot if you don't have to?

We're going to make these decisions based on the science and based on the law, which is the way they ought to be made. And this creates, I think, some confusion, and I think makes it harder to have that conversation.

Senator BLUNT. I particularly agree in the short term where you're only doing something that lasts for 4 or 5 months anyway. I tend to think that was right, though not only did it allow you to do something that you already had the authority to do, it allowed you to do something you'd already done in this 2010 case.

So this thought that somehow this is some extraordinary—it made the Department do something the Department couldn't do. In fact, it specifically said, as I looked back at it after it got all these attention, that if you agreed with the court and you weren't going to appeal, you didn't have to do anything. You could tell all these farm families, you can't sell the crop that we told you last spring you could plant.

But, of course, that had not been your position when this had come up before.

Secretary VILSACK. And what you've just indicated is precisely the reason why I was concerned about this, is that it gets reinterpreted, misinterpreted, expanded, concerns are expressed about what the real intent of something is, while we're trying to have this delicate conversation.

But, Senator, in the time that we've had this conversation, the good news is your NAP issue for you Missouri farmers has been resolved.

Senator BLUNT. It was a long enough question, Mr. Tester, that it actually can solve a problem while I was asking the next question.

Now, this is a good response, Mr. Secretary. I'm glad to hear that.

I had two or three others. I'll just submit those for the record. I don't want to take more of everybody else's time than we need, but I will submit some more, a couple of more, questions for the record.

Senator PRYOR. Thank you.

Senator Cochran, do you have any questions?

BIO-BASED MARKET PROGRAM

Senator COCHRAN. I have one, just as a matter of curiosity.

And that is, is there any bias in the Department of preferring bio-based market program items for home construction over traditional forest products?

Secretary VILSACK. No, I don't think that there's a bias, Senator. I think that we actually have a green building initiative at the For-

est Service where we're trying to educate folks about the important component of wood in construction.

I think it's a matter of education. I don't think it's a bias. I think there was an understanding of precisely what the laws and regulations require in that particular program. But I wouldn't suggest there is a bias.

But if you have an indication there is, I'd be more than happy to visit with you about that.

Senator COCHRAN. Well, it's just a matter of personal curiosity. My staff had written out a question suggesting that I ask you about the bio-based markets program. And I'm really not familiar with all of the details of how it works, and to what extent it is an effort to pressure through use of awards or rewards one type of building construction over another.

Secretary VILSACK. I think the way it's structured, it's designed to promote new and innovative opportunities to support new and innovative opportunities, on the theory that matured industries don't necessarily need a leg up or assistance. So I think that's the strategy and what happens is it, obviously, works to the detriment of some particular materials that are more traditional.

Senator COCHRAN. How can bamboo be more renewable than pine? They're both the same in terms of renewability, aren't they?

Secretary VILSACK. It has to do with the newness of the technology and the utilization. I'm not disagreeing with you. We're trying to work through this. And one way we're trying to work through it is all of our Forest Service projects from now on have a preference for green for wood. And we've had several projects that have been built recently. And we're trying to encourage more of that understanding on some of the more traditional materials.

Senator COCHRAN. Thank you very much.

Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Senator Cochran.

Senator Tester.

GENETICALLY MODIFIED ORGANISMS

Senator TESTER. Thank you, Mr. Chairman, and I want to thank the Secretary once again. And I do want to thank you for your realization about the delicateness of the whole GMO issue. I appreciate that a lot.

We can debate this offline, but I mean, I think the interpretation is if you make a decision, this is where this is different, and the court makes another decision that says you did it improperly, you're required to stay with that original decision. That's what the GMO rider did, from my interpretation. I could be wrong. I don't want to go down this line right now, because I've got other questions I want to ask.

PLANT BREEDING

Classical plant breeding, I'm actually very concerned we're not doing enough with our Federal dollars for research on publicly available, locally adapted seeds. And I think that they're critically important. A diverse seed supply is important. I think you alluded to that previously.

I guess Congress has highlighted the issue through report language, urging conventional and animal breeding and public cultivar development to be a priority for your Department. The question is, I guess it's fair to say there are concerns out there that it's not a priority. And I just want to get your perspective on those things.

They're critically important, as we see our climate changing all the time. And given the challenges of food security, diversity, farmer viability, where is the Department on this or you personally?

Secretary VILSACK. Senator, I think you're going to see additional investments in this area as a result of the concerns that have been expressed by folks.

Let me just simply say that as part of the AC21 effort, and as part of our concern about climate and adaptation and mitigation strategies, there is an emphasis on this. We put together a team in USDA to take a look at climate adaptation and mitigation. Part of that team is looking at the whole issue of seed and germplasm, and what do we have, what don't we have, what are the risks, and so forth.

So I wouldn't say that there is a lack of concern about this at all the Department. There's an understanding of the need for it.

Senator TESTER. I think it's good. And I think in a time where farmers are tending to lose control of the seed that they plant, in other words, somebody else owns it, I think these public cultivars are very, very important. Just wanted to pass that along.

CONSERVATION FUNDING

Conservation funding. This budget proposes critical conservation programs significantly below level established in the farm bill. Look, from a Montana perspective, from a country perspective, this is a huge industry, this outdoor industry, which the conservation helps promote.

The question is, we're in this game, whether it's politics or agriculture, to be able to pass the land on, and pass the country on to the kids in better shape that we got it.

So in this particular area, I'm not sure that the budget helps us do that, and I was wondering why conservation programs were targeted in this way.

Secretary VILSACK. Well, Senator, I respectfully suggest that we are committed to conservation. We're adding 26.3 million acres to our conservation programs, and it will mean that there will be another 80,000 producers assisted. It will mean that we'll continue to increase the record and historic amount of acres enrolled in conservation programs.

When the 2008 farm bill was passed, you were in a much different fiscal circumstance than you find yourself today. So this is about challenges and strategies.

So back to my point about being creative, there are two additional strategies that you weren't using in 2008 that we are currently using, which we think will expand and continue a commitment to conservation.

First is this issue of regulatory certainty. We did not have the relationship we have with the Department of the Interior in 2008 on the Endangered Species Act where we're now being able to

grant producers 30 years of regulatory certainty on the Endangered Species Act if they engage in certain conservation practices.

We did not have the relationship we are currently having with States like Minnesota, States like Maryland and Virginia who are in water certifications programs, where, using our conservation programs, they get deemed in compliance with their certification State requirements.

So this regulatory certainty creates an additional incentive and opportunity to expand conservation.

Second, that notion of ecosystem markets, we are focused very heavily on trying to measure and quantify the results of conservation. We believe strongly that if you can measure and quantify the results, then you can get private sector investment in conservation in order to sustain and comply with the regulatory responsibility that a utility or another industry may have that they can more easily and more inexpensively meet by conservation on a farm than building a water treatment facility on their grounds.

GENETICALLY MODIFIED ORGANISMS

Senator TESTER. You've got it. Okay.

One last thing, if I might, Mr. Chairman. You talked about the AC21 committee. I want to talk about the AC21 committee on biotech really quick.

You talked about the ability to coexist with organic sector, with purebred seed folks. And I think that there's going to be other issues that come down the line.

Let me give you an example. You can have a biotech crop like corn that's being used in a corn chip somewhere. And you can have another biotech corn plant that has an ingredient called amylase, which is good for making biofuels, but really destroys the chip market if it's commingled.

I guess, as that committee came out with its recommendations—and the commingling issue is not going to away. I think it's going to become more and more of a problem as we move forward. Do you have any suggestions or did they give you any suggestions on how you can move forward in a way that's sustainable financially and really deal with the coexistence issue?

Secretary VILSACK. I'm not sure that we specifically addressed the commingling issue as it relates to your particular example. But the way to answer your question, I think, is to say that there were three main focuses of this effort.

One was identifying stewardship responsibilities that producers of GM products will have, and understanding what's being raised around them, and timing and types of planning decisions that could minimize or reduce the risk of commingling.

And then, second, creating some kind of financial mechanism, maybe it's insurance, maybe it's something different than that, that would cover the risk of commingling when someone is financially devastated as a result.

And third is continuing to do significant research so that we understand better what's actually happening out there, because there's a lot of talk about what's happening, but there's not a whole lot of data about what's happening.

So collecting information and analyzing it and researching it will allow us to do a better job with the stewardship and the risk management piece of this.

Senator TESTER. I appreciate that. And I would hope that research would happen even before it's released into the ecosystem to find out what the potential of it happening out there is.

I mean, Mother Nature is a very simply but yet very complex beast, let's just put it that way. And I think that the tools are out there, and the potential tools for genetically modified plants makes a person very hopeful. But we need to make sure we're not getting more than what we bargain for. After it's into the ecosystem, you can't pull it out.

So thank you, Mr. Secretary. I just want to say thank you very much for the job you've done in the Department. I very much appreciate it, as somebody that's involved in production agriculture, the work that you've done and your commitment to rural America. Thank you very much.

AGRICULTURAL RESEARCH

Senator PRYOR. Thank you, Senator Tester.

Mr. Secretary, I want to thank you for being here. I do have some questions for the record. We need to move on to the second panel at this point, but I do have some questions about the Dale Bumpers Small Farms Center. I do not support the closing of that center.

And also some of the unique funding challenges for the Arkansas Children's Nutritional Center, but I want to follow up on that with you offline and talk through that and walk you through that and you can walk us through that, and hopefully come to some sort of agreement.

And then I just want to end where we started. I asked you about agricultural research in the beginning. I think it's critically important. And again, we'll follow up on this and talk about this in a separate setting. But you focused on competitive research, and I think that the capacity funding for our land grant universities is also important and let's just continue to have that conversation as we go.

And I want to thank you and your team for being here today. We look forward to continue working with you.

And, as you know, we always have an open line of communication, and we'd love to hear from you, love to continue to work with you.

Secretary VILSACK. Thank you, Mr. Chairman.

Senator PRYOR. Thank you. Thank you very much.

OFFICE OF INSPECTOR GENERAL

STATEMENT OF HON. PHYLLIS K. FONG, INSPECTOR GENERAL

ACCOMPANIED BY:

GIL HARDEN, ASSISTANT INSPECTOR GENERAL FOR AUDIT

KAREN ELLIS, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS

Senator PRYOR. I'm now going to introduce our second panel. And, as our staff clears the table and resets it, I'll just go ahead and just say very briefly, our second panel today is the Honorable Phyllis Fong. She's the inspector general of the U.S. Department of Agriculture.

And my understanding is, Ms. Fong, this is your first time to be before this subcommittee. We welcome you here. We thank you for your work. And I know that we have questions for you about some of the efforts you've done at the Department of Agriculture.

I know you have Karen Ellis and Gil Harden here, and we want to welcome all of you to this.

So if you would go ahead and start with your opening statement, we'll limit that to 5 minutes. Thank you.

Ms. FONG. Well, thank you, Mr. Chairman, and Ranking Member Blunt. It's really a pleasure to be here this morning. And as you point out, it is our first time. So we're looking forward to a good exchange of views.

We appreciate the support that this subcommittee has shown for the Office of Inspector General and our work. And, as always, we welcome the chance to address your concerns.

You have my full written statement, so I won't go into great detail. Let me just very quickly summarize that our mission at the Office of Inspector General is to support the Department and to help the Department deliver its activities as effectively as it can.

And so we do spend quite a bit of time on very high-priority issues involving the safety of the food supply, involving the Department's biggest programs, the Supplemental Nutrition Assistance Program (SNAP), as well as the various management activities of the Department including financial management, improper payments, information technology (IT) security, and the full range of Department activities.

PREPARED STATEMENT

And, as you know, we had a very successful year. Last year, we reported outstanding productivity. And so, we would just summarize by asking your support for our budget request for fiscal year 2014.

And with that, we're ready to address your questions.

[The statement follows:]

PREPARED STATEMENT OF HON. PHYLLIS K. FONG

Good morning, Chairman Pryor, Ranking Member Blunt, and members of the subcommittee. Thank you for the opportunity to testify concerning the oversight the Office of Inspector General (OIG) provides to Department of Agriculture (USDA) programs and operations. As you know, OIG's mission is to promote economy, efficiency, effectiveness, and integrity in the delivery of USDA's programs.

OIG conducts audits designed to ascertain if a program is functioning as intended, if program payments are reaching intended recipients, and if funds are achieving their intended purpose. Our audits make recommendations we believe will help

USDA better accomplish its mission. We do not have programmatic or operating authority over agencies or programs; instead, agencies are responsible for implementing our recommended corrective actions. We also conduct investigations of individuals and entities suspected of abusing USDA programs—these investigations can result in fines and imprisonment for those convicted of wrongdoing, disqualification from USDA programs, and agency disciplinary actions for USDA employees found to have engaged in misconduct.

In fiscal year 2012, OIG's activities resulted in potential monetary results totaling over \$1.5 billion. We issued 76 audit reports intended to strengthen USDA programs and operations, which produced about \$1.4 billion in potential results. OIG investigations led to 538 convictions with potential results totaling over \$106 million.

Today I will discuss our most significant recent audits and investigations under our major strategic goals, which provide a framework for prioritizing OIG's continually changing portfolio of oversight work. We will summarize our remaining work overseeing the Department's administration of American Recovery and Reinvestment Act of 2009 (Recovery Act) funds.¹ Finally, we will conclude with a description of the cost-saving actions that OIG is taking in fiscal year 2013 to live within its budget constraints, as well as a summary of the President's fiscal year 2014 budget request for OIG.

OIG GOAL 1: STRENGTHEN USDA'S SAFETY AND SECURITY MEASURES FOR PUBLIC HEALTH

To support USDA's mission to ensure the wholesomeness of the U.S. food supply, OIG conducts audits and investigations intended to ensure that U.S. consumers purchase safe, high quality products.

The Animal and Plant Health Inspection Service (APHIS) and Smuggling Interdiction

APHIS' Smuggling, Interdiction and Trade Compliance (SITC) unit prevents the unlawful entry and distribution of prohibited agricultural products that may harbor plant and animal pests, diseases, or invasive species. These prohibited products and pests cause billions of dollars in lost revenue and millions in cleanup costs. We found that SITC's control environment did not include a system of management accountability that would foster efficiency, adequacy, or accuracy in achieving its core mission and reporting its results. For example, 90 percent of SITC's market surveys (intended to seize prohibited products and investigate their origins) were not successful at either seizing a prohibited product or in generating a trace back to identify the importer of a prohibited product. For the surveys that were successful in these two areas, SITC did not take further action to stop future shipments for 96 percent of the higher risk imported prohibited products it seized. We recommended that APHIS assess the effectiveness of SITC's mission, and the agency agreed.

The Food Safety and Inspection Service (FSIS) and Meat Inspection

OIG has also published several recent audits intended to help improve the quality of inspections FSIS performs at meat processing plants around the country. One audit set out to determine if FSIS has sufficient inspection personnel to adequately monitor establishments that process meat and poultry products.² Although FSIS requires inspectors to visit slaughter establishments at least once per day, and at least once per operating shift, we noted that inspectors did not always comply due to events such as inclement weather, traffic delays, inspector delays at prior establishments, and unscheduled leave by inspectors. When such unexpected events occurred, FSIS had not established mitigating procedures for inspectors to use during the next scheduled visit to ensure that meat and poultry products were processed on the missed date in a safe and sanitary manner. We recommended that FSIS develop mitigating procedures for inspectors to perform when they miss scheduled inspections at processing establishments and require supervisors to analyze data from followup visits. FSIS generally agreed with our recommendations.

OIG also reviewed how effectively FSIS tests boxed beef items that downstream processors used for ground beef production and found that the agency needs to re-evaluate its *E. coli* testing methodology as it relates to the downstream processing of boxed beef products. While FSIS tests product designated as ground beef or likely to become ground beef, it does not sample all boxed beef product. Some downstream processors grind such boxes of cuts of beef without sampling it for *E. coli* prior to

¹Public Law 111-5, 123 Stat. 115 (2009).

²Because FSIS did not track whether establishments missed scheduled procedures due to unavailable inspectors, we were unable to reach a conclusion on the sufficiency of FSIS' inspection staff level.

grinding. Similarly, “retail exempt establishments”—such as grocery stores, restaurants, hotels, butcher shops—often grind their own ground beef; but unlike federally inspected plants, FSIS does not sample and test bench trim at these establishments for *E. coli*. We recommended that FSIS take additional steps to ensure that beef to be ground throughout the production process—from federally inspected slaughter establishments to local grocery stores—be subject to FSIS sampling and testing for *E. coli*, and the agency agreed.

Several recent OIG investigations have also highlighted the need for continued vigilance in the area of food safety. In May 2012, a Kansas food company was convicted and sentenced to pay \$480,282 in restitution to the U.S. Bureau of Prisons for selling misbranded meat products. From August 2006 through July 2007, the manufacturer caused more than 1 million pounds of beef trim to become adulterated and misbranded; it then sold, transported, and delivered this beef to Federal correction institutions located in several States.

Other investigations have helped protect the USDA organic label from individuals who would abuse it. In April 2012, an Oregon man who sold 4.2 million pounds of conventionally grown corn falsely labeled as USDA-certified organic corn was sentenced to 27 months in prison and 36 months of supervised release for wire fraud. This corn had been fed to cattle, and the resulting beef and dairy products were sold to consumers as USDA-certified organic. Similarly, in November 2012, the owner of a large volume organic products company was sentenced in California to 78 months in Federal prison for selling fertilizer falsely represented as organic. He was also ordered to pay \$9 million in restitution.

OIG GOAL 2: STRENGTHENING PROGRAM INTEGRITY AND IMPROVING BENEFIT DELIVERY

One of OIG’s most important goals is helping USDA safeguard its programs and ensuring that benefits are reaching those they are intended to reach. Given the size of the Food and Nutrition Service’s (FNS) Supplemental Nutrition Assistance Program (SNAP)—\$82 billion in fiscal year 2012—OIG has made a concerted effort to oversee compliance within that program.

OIG continues to direct a large percentage of its investigative resources to combating the trafficking of SNAP benefits.³ In fiscal year 2012, OIG devoted about 52 percent of its investigative resources to SNAP-related criminal investigations, which resulted in 342 convictions and monetary results totaling \$57.7 million. In a recent example, a north Texas grocery store owner pled guilty to SNAP trafficking, wire fraud, and running an illegal money transmitting business. The store owner was sentenced in January 2013 to 57 months of imprisonment and ordered to pay restitution of \$1.4 million. During the investigation, SNAP recipients admitted to exchanging SNAP benefits for cash and to using SNAP benefits to wire money to friends and family members in North Africa.

We also continue to work closely with State and local law enforcement agencies to prosecute SNAP recipients who abuse benefits. For instance, in March 2012, when a Texas store owner was convicted of trafficking \$1.3 million in SNAP benefits in his convenience store, OIG worked with local authorities to pursue the recipients as well. These individuals used their benefits to buy various ineligible items including gasoline, tobacco products, and alcohol, and also to play video poker at the store. To date, the local district attorney has accepted referrals of over 100 SNAP recipients for prosecution by the State of Texas.

OIG audits have shown that FNS can improve its controls over SNAP. One audit analyzed SNAP-related databases at Federal and State levels to identify anomalies that may result in ineligible individuals receiving SNAP benefits. We found that, while FNS and States do have tools for ensuring applicant eligibility and detecting fraud, States either do not make full use of the tools, or cannot rely on the data provided by the tools to take actions related to benefits. While our data mining reviews found a relatively low percentage of potentially ineligible recipients receiving SNAP benefits (just 0.20 percent), that percentage represents large sums in a program of SNAP’s size—about \$3.7 million per month. OIG recommended that FNS make full use of the fraud detection tools it already has, as well as strengthen its fraud reduction efforts. FNS agreed to our recommendations.

Other Food Assistance Programs

Of course, SNAP is not the only food assistance program that can benefit from improved oversight. The National School Lunch Program contracts with food service management companies to serve 31 million children lunch each day, with total dis-

³Trafficking is the illegal exchange of SNAP benefits for cash or other ineligible items. See 7 U.S.C. section 2024(b) and 7 C.F.R. section 271.2.

bursements of approximately \$11 billion. Our review of 18 school food authorities showed that 11 did not exercise sufficient management oversight to ensure they received the full benefits of purchase discounts and rebates and the value of USDA-donated foods. As a result, we questioned almost \$1.7 million in unallowable costs and USDA-donated foods that could not be accounted for. We recommended that FNS improve its controls over these contracts and agency officials generally agreed.

An OIG investigation revealed that an organized group of individuals opened 13 storefront operations in Georgia to defraud SNAP and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). From February 2009 to June 2011, this group illegally exchanged over \$5 million in benefits for cash. To date, 16 individuals have been charged with conspiracy or theft of Government funds. In fiscal year 2012, 13 individuals were sentenced to incarceration periods ranging from 9 to 63 months and were ordered to pay a total of \$6.3 million in restitution. Three individuals are scheduled for trial in June 2013.

An OIG audit of FNS' controls over vendor management and participant eligibility in WIC found that the agency's management evaluations did not identify and correct significant issues in the vendor management processes at two State agencies operating WIC. State agencies in Illinois and Florida lacked sufficient controls to track vendor violations for 42 vendors, and ensure timely and appropriate sanctions. As a result, these vendors were not disqualified as required by FNS regulations, and could redeem an estimated \$6.6 million in WIC benefits during their required periods of disqualification. We recommended that FNS improve its controls over WIC, and the agency generally agreed.

Farm Programs

OIG also works to help ensure the integrity of USDA farm programs. A recent audit reviewed how the Farm Service Agency (FSA) determines the soil rental rates used for payments in its Conservation Reserve Program (CRP)—a program that provides annual payments to producers who agree to maintain conservation practices such as establishing grass cover on farms to prevent soil erosion and reduce chemical runoff. We found that FSA did not use the National Resources Conservation Service's (NRCS) most up-to-date measure of soil productivity, which uses scientific data relating directly to the ability of soils, landscapes, and climates to foster crop productivity on non-irrigated soil. Additionally, FSA did not use the National Agricultural Statistics Service's (NASS) statistically valid survey of county average rental rates for cropland and pastureland, and instead allowed States and counties to submit alternate rates, which were not always supported. OIG questioned these rates and determined that FSA's rates exceeded NASS' by about \$127 million over the 10-year life of the CRP contracts. We recommended that FSA improve how it determines these rates, and the agency generally agreed.

The Risk Management Agency (RMA) and Crop Insurance

OIG has recently completed work on how RMA operates the crop insurance programs that U.S. farmers and ranchers rely on. One of our audits reviewed how RMA reinsures private insurance companies (known as approved insurance providers (AIP)) when they insure new producers. Such "new producers"—defined as those who have no more than 2 years of history farming a specific crop—are considered higher risk and RMA therefore reinsures the AIPs at a higher rate. We determined that 154 of 176 new producer-designated crop insurance policies in our sample were sold to insured producers who were not eligible for new producer status—57 of these policies resulted in indemnities totaling \$2.4 million and \$910,000 in associated costs. We recommended that RMA improve how AIPs determine if a producer should be considered new or not, and the agency generally agreed with our recommendations.

Our review of how RMA is overseeing Federal crop insurance coverage for organically produced crops found that transitional yields offered to organic producers overstated actual production capabilities of farmers producing crops using organic farming practices. We determined that this error resulted in excessive insurance coverage and higher indemnity payments for 35 of 48 crop policies with losses. Because the policies guaranteed excessive yields, at least \$952,000 of the \$2.56 million that RMA paid in indemnities were excessive. We recommended that RMA reduce transitional yields for crops produced using organic farming practices, and the agency agreed.

Several recent OIG investigations have also involved farm programs. In one case, RMA and OIG worked together to determine that a farmer in Illinois underreported his crop production in 2009 and 2010, thereby defrauding the Government of more than \$500,000. The farmer pled guilty to money laundering and bankruptcy fraud,

and was sentenced to 51 months of imprisonment and restitution totaling \$1.8 million.

I would also like to draw the Committee's attention to a particularly noteworthy investigation involving widespread crop insurance fraud for tobacco in North Carolina, which has resulted in several cases. In one case an insurance agent was sentenced to 108 months of imprisonment and \$8.3 million in restitution. In a second case a crop adjuster was sentenced to 48 months imprisonment and \$21 million in restitution jointly and severally with the other subjects of the investigation. OIG's ongoing investigation of this conspiracy has resulted in a total of 40 convictions, 28 years' prison time, and \$55 million in restitution, to date.⁴

OIG GOAL 3: OIG WORK IN SUPPORT OF MANAGEMENT INITIATIVES

OIG is also working to aid the Department in improving the processes and systems it needs to function effectively. Bringing its information technology (IT) systems into line with Federal standards has been a significant challenge for USDA. Over the last 4 years, OIG has made 49 recommendations in our fiscal year 2009–2012 Federal Information Security Management Act (FISMA) audits to improve the overall security of USDA's systems.⁵ The Office of the Chief Information Officer (OCIO) has completed action to resolve 14, and USDA is taking steps to resolve the remaining recommendations.

In fiscal years 2010 and 2011, OCIO received about \$66 million to fund additional IT security projects to address some of these system weaknesses. OIG reviewed the use of these funds and found that the office did not prioritize its efforts to mitigate IT security weaknesses and accomplish a manageable number of the highest priority projects before proceeding to the next set of priorities. Instead, we found that several of OCIO's projects did not meet the purposes outlined in the congressional request for funding or address the Department's most critical IT security concerns. For example, OCIO exceeded proposed budgets for projects, did not allot sufficient funding to key security areas, and did not completely implement the projects it started. We recommended that OCIO document the prioritization of projects Departmentwide, and the agency agreed to take the appropriate action.

Reducing Improper Payments at USDA

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires OIG to determine whether USDA complies with IPERA annually.⁶ For fiscal year 2012, OIG determined that USDA did not comply with IPERA for a second consecutive year. USDA made progress in improving its processes to substantially comply with IPERA, but the Department was not compliant with three of the seven IPERA requirements, including reporting sufficient estimates for high-risk programs, reporting error rates below specific thresholds, and meeting annual reduction targets. By meeting reduction targets, USDA could have avoided making approximately \$74 million in improper payments. As required, OIG must report to Congress that USDA did not comply with IPERA. For those programs that did not comply for 2 consecutive fiscal years, USDA must consult with the Office of Management and Budget to discuss further actions. We briefed USDA officials on our results, and they generally concurred with our findings and recommendations.

As part of the effort to eliminate payment error, waste, fraud, and abuse in Federal programs, OIG reviewed USDA's compliance with the executive order on improper payments and found that USDA has made significant improvements in identifying high-dollar overpayments within its 16 high-risk programs.⁷ However, we noted that the component agencies' submissions to the Department did not always completely and accurately account for high-dollar overpayments and corrective actions, and that the Department did not submit these reports until 23 to 99 days after the required due date. We recommended that OCFO improve its oversight of this process, and the agency agreed.

At NRCS, OIG reviewed the steps the agency has taken to ensure that its conservation programs are reaching the intended participants and achieving their intended results. We found that NRCS has not implemented a comprehensive, integrated compliance strategy designed to verify that its \$3.6 billion in conservation programs are being used as intended. Over the past decade, a number of OIG audits have demonstrated that NRCS has longstanding problems with verifying the eligibility of participants, participant compliance with conservation agreements, and the valuation of easements. We recommended that NRCS perform a risk assessment of

⁴These results include both cases.

⁵44 U.S.C. sections 3541 et seq.

⁶Public Law 111–204, 124 Stat. 2224 (2010).

⁷Executive Order No. 13,520, 74 Fed. Reg. 62,201 (Nov. 25, 2009).

its vulnerabilities and focus its compliance activities on areas of program weaknesses, such as eligibility. Agency officials generally agreed.

Investigations of Wrongdoing by USDA Employees

When a USDA employee is accused of criminal activity, OIG is responsible for performing investigations of any wrongdoing. An OIG investigation found that a former FSA county committee member and her husband conspired to defraud USDA by stealing the identities of unsuspecting parties and submitting false and fraudulent claims. Ultimately, they caused FSA to make approximately \$1 million in fraudulent payments. In August 2012, the former FSA county committee member and her husband were sentenced to 52 and 57 months in prison, respectively. In addition, they were jointly ordered to pay \$802,490 in restitution.

OIG GOAL 4: IMPROVING USDA'S STEWARDSHIP OF NATURAL RESOURCES

Since USDA is entrusted with hundreds of billions of dollars in fixed public assets, such as 193 million acres of national forests and grasslands, OIG performs reviews to ensure that the Department is acting as an effective steward of these natural resources. One review found that the Forest Service (FS) allocated Recovery Act grants for wildland fire management (WFM) activities—such as hazardous fuels reduction, forest health, and ecosystem improvements—without the necessary controls to ensure that the grant funds were both properly accounted for and used for their intended purpose. These findings apply not just to Recovery Act grants, but to the entire FS WFM grant program. We also found that FS did not enhance its existing controls, despite the Recovery Act's requirements for greater transparency and accountability. As a result, grant recipients charged a total of \$92 million in unallowable and questionable costs to both Recovery Act and non-Recovery Act grants. Additionally, FS staff did not take necessary steps to ensure that the agency met the Recovery Act's overall objective of maximizing job creation and retention in the most cost-effective manner possible. FS generally concurred with all of our audit recommendations.

OIG'S OVERSIGHT OF RECOVERY ACT PROGRAMS

We are working to finish our remaining oversight work directed towards ensuring that the \$28 billion in funds USDA received from the Recovery Act served their intended purposes. Because many of our recommendations concerning Recovery Act funds also apply to regular USDA programs, our work will have lasting importance long after Recovery Act funding has been expended.

RD's Single Family Housing (SFH) Guaranteed Loan Program

In order to provide low- and moderate-income people who live in rural areas with an opportunity to own homes, the Federal Government guarantees loans and reimburses up to 90 percent of the original loan amount if a borrower defaults on a loan. Given increases in such loss claims—from \$103 million in fiscal year 2008 to \$295 million in fiscal year 2011—OIG reviewed the program and determined that RD needs to better identify loans with questionable eligibility prior to paying loss claims, reduce loss claims when lenders improperly serviced loans, and pay lenders only for eligible expenses. We estimate that the agency paid about \$87 million in loss claims that were at risk of improper payments due to questionable loan eligibility, and paid about \$254 million in loss claims for loans that were at risk of improper payments due to questionable lender servicing. We recommended that RD improve its loss claims process to address these circumstances, and the agency generally agreed with our recommendations.

Most of our remaining Recovery Act projects involve assessing agency determinations of program effectiveness through analysis of Recovery Act performance measures.

OIG'S FISCAL YEAR 2014 BUDGET REQUEST

OIG continues to offer Congress an excellent return on its oversight investment, per \$1 spent. From fiscal year 2007 to fiscal year 2012, the potential dollar impact of OIG audits and investigations has been \$6.9 billion, while our appropriations have been \$508 million. For every \$1 invested, we realized potential cost-savings and recoveries of about \$13.66. This calculation does not include the value of our food safety work and program improvement recommendations, which are extremely important to USDA's mission and the welfare of the general public, but are not easily quantified.

We have also streamlined our operations in an effort to work as efficiently as possible. For example, in fiscal year 2012, OIG conducted a functional analysis to en-

sure that we, as an agency, are tying our resources to what is most critical to meeting our mission and are positioned to operate as efficiently and effectively as possible. Based on this analysis, we are taking the following steps to build a leaner and more effective agency:

- offering Voluntary Early Retirement Authority and Voluntary Separation Incentive Payments (39 employees separated pursuant to these authorities);
- increasing the use of video and teleconferencing to reduce travel costs;
- reviewing leases and office structure, resulting in savings from steps such as office consolidation;
- allowing employees to fill GS-14 and GS-15 positions without moving, which has reduced relocation costs; and
- shifting Investigations and Audit employees away from headquarters and to the field, which puts more resources into activities that directly accomplish our mission.

Although these steps have enabled OIG to continue performing its oversight role despite a restricted budget, we note that OIG is presently functioning at its lowest level of authorized staffing since 1963. The availability of staff and travel resources has become a key consideration in determining which audit and investigative matters OIG can undertake.

We ask that you support the President's fiscal year 2014 budget request of \$89.9 million for OIG, which would enable us to provide effective oversight of USDA programs and help ensure that tax dollars are being well spent. The President's budget includes modest increases in areas where we should be able to produce a high-value return for a relatively small investment:

- \$785,000 to support statistical sampling that would accurately project the extent of improper payments in audits of USDA benefit programs. This multiplies our work's range and effectiveness, especially for very large programs like SNAP.
- \$620,000 to fund enhanced audit and investigations oversight of USDA's international programs.
- \$1,217,000 for investigative initiatives to address SNAP fraud on the part of both retailers and recipients involved in benefit trafficking.
- \$468,000 for the Council of the Inspectors General on Integrity and Efficiency by funding Government-wide activities to identify vulnerabilities in Federal programs.
- \$667,000 for increased pay costs to support and maintain current staffing levels to meet the demands and statutory requirements of OIG. Approximately 86 percent of OIG's budget supports personnel compensation.

This concludes my testimony. Thank you for the opportunity to testify, and I would be pleased to address any questions you may have.

Senator PRYOR. Great, thank you.

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

Let me start with the SNAP program. Obviously, SNAP is nearly an \$80 billion program, which is the largest single USDA program. Can you just give us a brief summary of the work you've been doing to combat fraud and abuse in SNAP, and the recommendations that you've worked on, on SNAP.

Ms. FONG. Well, thank you. That is definitely a focus for our office. It is the biggest program. And what we have tried to do over the last 5 or 6 years is really pinpoint the areas in the program where there is potential for vulnerability and fraud. And so, we're looking, for example, at the Department level, how the Food and Nutrition Service (FNS) manages the program. We're looking at the interaction between retailers and beneficiaries. And we're looking at how the States make the determinations on eligibility for recipients.

We have issued numerous audit reports and investigation reports with a lot of recommendations to the Department. And FNS, I'm happy to say, is working with us very collaboratively on trying to address these issues.

Senator PRYOR. That's good news.

NATIONAL SCHOOL LUNCH PROGRAM

Let me also ask a similar question about the National School Lunch Program. I know you've been doing audits there, and can you give us just a brief update on the National School Lunch Program and your findings there?

Ms. FONG. You're correct that that is an area of focus for us as well. We are, right now, looking at the improper payment issues in that program. The rate of improper payments tends to be very high as estimated by the program.

We have done some work recently involving the food service management companies, and whether or not the rebates that those companies receive are passed along appropriately. And we will continue to work in that program.

Senator PRYOR. Okay.

Senator Blunt.

Senator BLUNT. Thank you, Chairman.

WIC PROGRAM

Following up on the chairman's questions about SNAP, the WIC program, there appears to me to be, in the information we've had, a difference in the people who are taking advantage of the system and people who are violating the law.

And as I understand it, in Georgia recently you found some real violations of law. In California, an issue that we've talked about at this same hearing with the Department, not necessarily with you, last year, it turns out that California's rules and regulations were so flexible that they let people do things that were clearly stressing the system in bad ways, but not necessarily illegal behavior.

Would you talk a little about how both of those things are things that we need to try to do something about?

Ms. FONG. Well, this is an area that we are finding that we need to spend more time on, the WIC program.

As you point out, there has been quite a bit of fraud. And some of our cases in Georgia really point out the kinds of trafficking that we have seen, which is very similar to the trafficking that we find in the food stamp program.

The other situation that you mention, we appreciate your bringing that to our attention. We have not, to date, done work on that particular issue, but we do have some ongoing audit work that we are starting now, focusing on the vendors in the WIC program and how the food prices can be worked with.

I believe we'll be focusing on that in that audit, and we should have more to report on this next year.

Senator BLUNT. Okay. As I understand, as I recall this from last year, the California situation was a number of stores had been set up really focused as WIC or SNAP locations, but more WIC because you're buying product, as I understand it, and then they're getting reimbursed for what they charge for it.

But the California rules appear to be rules that actually allow some of that behavior to happen, maybe not ethical, but legal where I think we need to—I'll look forward to your response to that as you have a chance to look at what if anything can be done so

that you don't have locations just set up to game the system and do it within the rules of the system.

Ms. FONG. I think one of the issues that we would want to look at is how this is being implemented nationwide, whether there is any variance between States. And there may be some issues that could be addressed at the national level on that.

IMPROPER PAYMENTS

Senator BLUNT. And for the second year in a row, OIG has found that USDA doesn't comply with the Improper Payments and Recovery Act, because of the complexity of these programs? What's your sense of why that is?

Ms. FONG. Well, you're referring to the requirements that, every year, the Department has to identify its improper payment activity, it has to identify where the issues are that may result in improper payments, and then report on actions that it will take to address those issues.

And under those statutes, we in the Office of Inspector General have to audit the Department's efforts. And as you point out, for the second year in a row—this is a fairly new requirement that we go in and audit these efforts. We have found the Department has made progress.

Since last year, it's made progress. But there are still areas that need to be addressed. And we are seeing issues, both at the Department level, as well as at the individual agency level, as well as issues with improper payments in particular programs.

Our written statement identifies a number of specific programs where we have found improper payment issues. So this will continue to be a high priority for us.

Senator BLUNT. Well, thank you.

Mr. Chairman, I have some other questions I think I'll submit for the record. So that's all I have right now.

Senator PRYOR. Thank you, Senator Blunt.

Let me go ahead and ask a couple of more before we break for the day here.

REDUCTION IN WORKFORCE

I know that we're in a budget-declining and budget-restricted time. And one of the results of that is going to be a fewer number of staff. And I think, in some ways, we should applaud that and encourage that and find those efficiencies. But I do have a concern about some agencies as they reduce staff, might the program integrity suffer, might it open the door for fraud and waste and mismanagement, because there's just not as many people there taking care of the Nation's business?

So have you had that experience at USDA? Are you seeing any drop off with the number of employees going down?

Ms. FONG. I think you put your finger on a very difficult issue. There's no question that many of the agencies are losing significant portions of their workforce, and they tend to lose the very experienced people who really know the programs inside out.

And I think we have, as an office, seen that there are succession-planning challenges, there are challenges in continuing to deliver the programs with less staff.

And I don't know what the solution to that is. As we do our work within the Department and identify areas that need work, we try to come up with solutions that are not staff-intensive, that make better use of IT, for example, that may be more efficient in terms of business process.

But I think we will continue to see the Department challenged in this regard.

Senator PRYOR. And do you think you'll see the incidence of waste and maybe fraud go up as the staffing levels go down?

Ms. FONG. I think it's hard to predict. Some of the recommendations that we do make to the agencies are that they come up with a baseline estimate on the level of fraud in their programs.

And just for an example, within the SNAP program, the agency has identified a certain percentage of what it believes to be improper payments. But in our view, they don't have a good estimate on the level of fraud or trafficking. And so we have made recommendations to them that they actually engage in that analysis so that they have a benchmark and then can measure whether things get better or get worse over time.

CIVIL RIGHTS

Senator PRYOR. And for my last question, I want to have some questions for the record as well, but for my last question, I'd like to ask about a sensitive subject at USDA, because USDA has had some problems in this area of civil rights over the years.

And there was recently a New York Times article that was critical of the processes that the Department utilized to settle four large civil rights cases. I don't know if you had a chance to read that or if you're familiar with it.

But basically, the article points out that the administration at USDA made certain decisions that maybe maximized claimants chances of receiving a settlement and that there possibly was fraud and fraudulent tactics on the parts of the claimants.

I don't know if you're familiar with that. That's a fairly serious charge, and I was wondering if you have any investigation along those lines, again, if you're familiar with that story and the circumstances around it.

Ms. FONG. Thanks for that question.

I believe the article is focused on the so-called *Pigford II* litigation situation. And as you know, that's been a longstanding challenge for the Department. We in the Office of Inspector General have been dealing with *Pigford* situation, both on the audit as well as investigative sides.

On the investigation side, very simply, whenever there are allegations of fraud in that process, our agreement with the Department of Justice is to refer those allegations to the Federal Bureau of Investigation to look at. And we have done that for the past 10 years or so.

One the audit side, because of a concern that payments may be made improperly to people who don't deserve the claims, as you probably know, Congress mandated that we do an audit, a performance audit of the *Pigford* claim process, prior to any payout of the claims.

And so we are, right now, engaged in that audit. We have just about finished our fieldwork. And we should have a report out in the near future, which, I think, will help the process and help to ensure integrity in that payment process.

ADDITIONAL COMMITTEE QUESTIONS

Senator PRYOR. Great.

Listen, I want to say thank you. We're going to have other questions for the record. And I know other subcommittee members will have those as well.

So thank you for being here, and thank you for your preparation and for your appearance, and also, of course, to Secretary Vilsack.

What we're going to do on the subcommittee is we're going to allow Senators 1 week to submit additional questions to the subcommittee staff, and that's a week from today, so that's Thursday, May 16. And then we'll send those over to USDA.

We would appreciate you all having your answers back within 4 weeks of that time.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO HON. THOMAS J. VILSACK

QUESTIONS SUBMITTED BY SENATOR MARK L. PRYOR

STRIKEFORCE INITIATIVE

Question. In 2010, the Department implemented the StrikeForce Initiative to increase participation in USDA programs in high poverty counties. Selected counties in Arkansas, Georgia, and Mississippi were included. Recently, USDA announced expansion of this initiative into 10 additional States. NRCS, FSA, and RD are all involved in the StrikeForce Initiative.

Can you please explain how the StrikeForce Initiative works?

Answer. The USDA StrikeForce for Rural Growth and Opportunity was piloted in 2010 as a partnership with community-based organizations (congregations, volunteer organizations, nonprofits and others) to improve access to USDA programs in poverty-stricken rural areas with more than 20 percent poverty. NRCS, FSA, RD, and other USDA agencies work together to increase awareness and enrollment in programs.

The overall goal for StrikeForce is to increase partnership with rural communities and leverage community resources to reduce poverty in targeted, persistent poverty counties. USDA aims to accomplish this by increased technical assistance through meetings and trainings; providing assistance to increase the number of applications for USDA program associated with the Socially Disadvantaged Groups; assessing the number of successful applications to USDA programs by Socially Disadvantaged Groups; and a 10-percent increase in funding from all USDA programs to StrikeForce target areas.

StrikeForce is coordinated at USDA headquarters and managed by NRCS, as the current chair of the National Food and Agriculture Committee. State conservationists in each StrikeForce State lead the effort with RD, FSA, and regional representatives from AMS, FNS, and RMA. Each agency in the 16 StrikeForce States has a designated agency StrikeForce lead, usually the State Conservationist for NRCS, State Director for RD, or State Executive Director for FSA. Arkansas, Georgia, and Mississippi are the original States that were in the 2010 pilot; Colorado, New Mexico, and Nevada were added to the Initiative in 2011; and Alabama, Alaska, Arizona, North Carolina, North Dakota, South Carolina, South Dakota, Texas, Utah, and Virginia were added in 2013.

Question. What successes have you seen to date, and how do you plan to measure success over the long term?

Answer. NRCS has forged partnerships with key local nonprofit organizations to host hundreds of outreach meetings with historically underserved populations, and has allocated \$35 million above normal program allocations in the Environmental

Quality Incentives Program (EQIP) over the last 3 years. As of the second quarter of this fiscal year, a total of 1,295 contracts have been selected for funding, obligating over \$22 million on more than 500,000 acres of eligible lands. NRCS will continue to evaluate funding applications through the end of the year to increase funding through the StrikeForce Initiative, which currently represents about 10 percent of EQIP second quarter national financial assistance obligations. In addition, NRCS is developing targets that will enable a better measure of success in reaching historically underserved and Socially Disadvantaged Groups in StrikeForce areas.

RD obligated a total of \$65 million in StrikeForce areas for the Rural Housing Community Facilities Program in 2012, which was a 112-percent increase over 2011. USDA is increasing homeownership opportunities in New Mexico for families living in the Colonias communities of Luna, Hidalgo and Dona Ana Counties along the U.S.-Mexican border. RD worked with the Southwest Regional Housing and Community Development Corporation and Tierra del Sol Housing to increase the number of USDA home loans from 22 in 2011 to 58 in 2012, and as of May 2013 has 36 loans completed.

FSA has had a significant increase in direct farm loans during the last year in StrikeForce States even as the number of applications nationwide has decreased slightly. Second quarter FSA farm loan reports for 2013 show a total of 1,869 direct loans made in StrikeForce States, for over \$150 million. In Arkansas the number of direct and guaranteed loans has increased each year, with 159 loans in 2010; 170 loans in 2011; and 204 loans in 2012. As of April 2013, a total of 169 loans have been made.

The new FSA Microloan Program should further assist the credit needs of minority, women, and beginning farmers, who typically have smaller farm operations, less farm equity, or lack a sufficient credit or production history. Between mid-January and mid-June, FSA is on track to obligate over 2,600 Microloans valued at more than \$50 million; and 85 percent of those loans are going to historically underserved groups. Additionally, 67 percent of Microloan borrowers are first-time farm loan participants, an indicator that the program is accomplishing a primary objective of removing barriers to USDA program participation in StrikeForce States.

Question. A critical component of this program appears to be the leverage attained from increased cooperation across USDA agencies, coupled with improved reliance on local organizations and institutions.

In this era of reduced resources, how does the Department have the funds to expand the initiative?

Answer. There is no new funding and USDA agencies are using existing resources from congressionally approved and appropriated programs. We are working to improve program effectiveness by collaborating across agencies to reduce redundancies and by targeting our efforts to areas with the greatest need. Agencies will continue working together to leverage resources with private sector non-governmental organizations, the philanthropic community, and others to educate and advise potential program participants who previously were unaware of their eligibility. In addition, participating agencies will take turns leading the initiative at national headquarters to share the responsibility of collaboration and coordination.

Question. With local organizations and institutions also facing administrative cutbacks, is this model sustainable?

Answer. We believe it is. The StrikeForce Initiative has been successful in large part because of our partnerships with local organizations. We understand those organizations may face funding pressure in the future. However, we will continue to work closely with local community-based organizations, colleges and universities, State and local governments, and other partners because we can accomplish much more by combining our financial resources and staff and being smarter about how we invest in rural America. Working together helps stretch limited funding, technical assistance and manpower.

NATIONAL INSTITUTE ON FOOD AND AGRICULTURE

Question. Secretary Vilsack, I was pleased to see the large funding increase requested for NIFA and AFRI. We're the world leader in agriculture production, and the demands on the industry are continuing to grow, but we're being far outspent by China, India, and Brazil when it comes to agricultural research. If we want to remain the world leader, we need to up our game.

However, while competitive funding is an important tool, capacity funding at our land-grant universities is equally important. Unlike competitive research, it provides a steady stream of revenue to allow for a wide range of real time, real world research that can solve local and regional problems immediately, and that can be disseminated through our extension service to make sure the research is imple-

mented. Our land-grant universities have provided the bedrock support that has made our agricultural research system the envy of the world and helped position the United States as the world's largest food exporter.

These funds are highly leveraged, with State and local governments often providing 10 times as much in matching funds as the original Federal investment. It's a good use of taxpayer dollars.

Why is the focus solely on competitive research, when there are so many benefits, both long and short-term, to capacity funding as well?

Answer. The aim of the President's budget request for the National Institute of Food and Agriculture is to provide a balanced investment of resources to support research, education and extension programs in food, agricultural, natural resources, and human sciences. The budget proposes to support the capacity programs at the 2012 level. Restoring this funding level for 2014 will provide the land-grant institutions an 8-percent increase above the final amounts available during 2013 and provide critical base support for research and extension capacity throughout the land-grant system. These funds, with support from State and local sources and in combination with competitive grants, will assure the continued preeminence of our Nation's food and agricultural research and extension enterprise.

The 2014 budget supports the need to continue investing in growing capacity, including moving beyond the capacity support for 1890 Institutions, to include continued support for other programs that support minority-serving institutions. About 55 percent of the NIFA budget supports capacity programs.

CONSOLIDATING BUSINESS PROGRAM GRANTS

Question. Mr. Secretary, your budget proposes to create a new economic development grant program by consolidating five existing programs and increasing the total funding by \$15 million to \$55 million. The programs to be consolidated include: Rural Business Enterprise Grants; Rural Business Opportunity Grants; Rural Community Development Initiative Grants; Grants to Assist Minority Producers; and Rural Cooperative Development Grants.

These successful programs were designed to address different needs and to assist different constituents. For instance, the Rural Business Enterprise Grant program promotes the expansion of small and emerging rural businesses, while the Rural Cooperative Development Grant program supports centers for cooperative development.

Why are you proposing to combine these different programs?

Answer. The proposal to combine these programs is based on improving the efficiency of program delivery and making these programs more accessible to people in rural America. While these programs do address different needs and assist different constituencies, they all share a common objective of improving economic conditions in rural America. The consolidation of authorities under one umbrella will enable Rural Development to make awards based on economic development performance targets established to encourage rural private sector growth. Combining five programs into a single rural business and cooperative grant program will simplify the communication of program offerings and support a more streamlined application process. Lastly, the consolidation would provide greater flexibility to be more responsive to locally identified priorities. Regardless of the funding level, certain costs of administering a program are fixed and USDA must allocate resources accordingly. Consolidation into a single program will reduce the amount of resources needed for preparing programs and allow for greater attention to program delivery, administration and outreach.

Question. How will you ensure that the disparate needs that are now addressed will continue to be addressed in the future? For instance, will current constituents of the Rural Cooperative Development Grant program be disadvantaged in the competition for funds under the new program?

Answer. The new Rural Business and Cooperative grant program will continue to address the wide array of demands that the current array of business programs meets by being inclusive of the variety of applicants and the types of eligible projects. For example, the new program would continue to make grants available to public bodies, nonprofits, Native American tribes, cooperative development centers, and associations of cooperatives, among others. In addition, it would continue to fund technical assistance activities to promote the creation of jobs and the growth of rural business activity.

By structuring the new program using metric-based parameters, all applicants will be able to compete for funding on an equal footing. The new program would have a strong emphasis on performance targets and evaluation, and make them evidence based, which would improve the efficiency and effectiveness of agency grant

making. Rural Development (RD) would establish minimum community and economic development performance targets and award grants based on the extent to which the applicant can demonstrate the ability of the proposed project to exceed those performance targets on a competitive basis.

Further, the broader consolidated program will benefit all constituents by leveraging more effectively the grants to provide greater assistance to rural communities and may be further beneficial to constituents by offering them access to project activities or purposes not currently covered in a program.

Question. Since this is a new program, isn't that an authorizing issue that should better be addressed in the farm bill?

Answer. In order to implement regulations for a combined grant program, RD would need to have statutory authority. USDA certainly hopes that such a combined program will be given serious consideration in future farm bill deliberations. In fact, the current Senate version of the farm bill includes a version of a combined grant program.

USDA has chosen to go forward with this proposal at this time in an attempt to address unprecedented budget concerns. We are seeking ways to ensure the Agency is making the most efficient use of human and financial resources to deliver outcomes that are sustainable and measurable in terms of performance. Until such a program is authorized in a future farm bill and until such time as a regulation is in effect for the new program, USDA seeks to implement this program as a demonstration or pilot program through a Notice of Funds Availability.

Question. In your justification you state that, "This account is also available to support the Promise Zones initiative." In searching the Department's Web site I can find no reference to the Promise Zones initiative. What is that initiative and why should scarce resources be diverted from existing successful programs for that purpose?

Answer. In the President's 2014 budget, the Promise Zones initiative is a White House/multi-agency initiative that will revitalize high-poverty communities across the country by attracting private investment, improving affordable housing, expanding educational opportunities, and providing tax incentives for hiring workers. Investing in the Promise Zones will reduce violence and assist local leaders in navigating Federal programs and cutting through red tape.

USDA has played an active role in a cross-agency working group that is designing the Promise Zones initiative. Promise Zones is an important piece of the President's Opportunity Ladder agenda. There will be Promise Zones in urban, rural, and tribal communities around the country. USDA has led the effort to design the Promise Zone initiative for rural and tribal communities. Regions will be designated in 2013, including at least one rural and/or tribal community.

At the present time, no funding resources are provided for this initiative. The intent is to collaborate and leverage existing resources from across the Government to support sustainable regional community development activities.

SEQUESTRATION

Question. Please describe, by mission area, how USDA has handled sequester reductions. Please include information on reductions to service contracts, Federal employees, and contract employees.

Answer. [Follows:]

Farm and Foreign Agricultural Services.—Curtail internal and external hiring; reduce overtime; offer Voluntary Early Retirement Authority (VERA) or Voluntary Separation Incentive Payments (VSIP); cancel or strictly limit monetary awards; rescope information technology (IT) contracts or delay them until a future fiscal year; rescope contracts for program and management support services or delay them until a future fiscal year; reduce employee training and travel; and renegotiate new grants or delay them until a future fiscal year. Additionally, FFAS used interchange authority under 7 U.S.C. section 2257 to transfer about \$174 million from CCC Direct Payments to prevent disruptions in the following FSA and CCC programs: Dairy Indemnity, Milk Income Loss Contract, Non-Insured Assistance Payments, Non-Bill Emerson Humanitarian Trust Commodity Inventory Storage, Disaster Relief, Tobacco Trust Fund, and Marketing Assistance Loans.

Rural Development.—Curtail internal and external hiring; reduce overtime; offer Voluntary Early Retirement Authority (VERA) or Voluntary Separation Incentive Payments (VSIP); cancel or strictly limit monetary awards; rescope information technology (IT) contracts or delay them until a future fiscal year; rescope contracts for program and management support services or delay them until a future fiscal year; rescope contracts for hardware procurement or delay them until a future fiscal year; reduce employee training and travel; rescope major activities or events related

to agency core functions, including the production, development and testing of new products, or delay until a future fiscal year; and cancel grants, planned maintenance, or major activities or events related to agency core functions. Additionally, RD used interchange authority under 7 U.S.C. section 2257 to transfer \$8.3 million to the Salaries and Expenses account from the Bioenergy Program for Advanced Biofuels to fund on-board employees who provide critical services.

Food, Nutrition and Consumer Services.—Curtail internal and external hiring; reduce overtime; and reduce employee travel.

Natural Resources and Environment (NRE).—Curtail internal and external hiring; reduce overtime; cancel or strictly limit monetary awards; rescope information technology (IT) contracts or delay them until a future fiscal year; rescope contracts for facilities and building services or delay them until a future fiscal year; rescope contracts for program and management support services or delay them until a future fiscal year; rescope contracts for hardware procurement or delay them until a future fiscal year; reduce employee training and travel; rescope planned maintenance or repairs or delay until a future fiscal year; rescope major activities or events related to agency core functions, including the production, development and testing of new products, or delay until a future fiscal year; and cancel grants, planned maintenance, or major activities or events related to agency core functions. Additionally, NRE used interchange authority under 7 U.S.C. section 2257 to transfer \$5.4 million in Natural Resources Conservation Service funding from the Farm and Ranch Lands Protection Program to the Conservation Security Program to avoid billing recipients for some of the payments already made.

Food Safety.—Curtail internal hiring; offer Voluntary Early Retirement Authority (VERA) or Voluntary Separation Incentive Payments (VSIP); cancel or strictly limit monetary awards; and reduce employee training and travel.

Research, Education, and Economics.—Curtail internal and external hiring; reduce overtime; offer Voluntary Early Retirement Authority (VERA) or Voluntary Separation Incentive Payments (VSIP); cancel or strictly limit monetary awards; rescope information technology (IT) contracts or delay them until a future fiscal year; rescope contracts for facilities and building services or delay them until a future fiscal year; rescope contracts for program and management support services or delay them until a future fiscal year; rescope contracts for hardware procurement or delay them until a future fiscal year; reduce employee training and travel; renegotiate new grants or delay them until a future fiscal year; rescope planned maintenance or repairs or delay until a future fiscal year; rescope major activities or events related to agency core functions, including the production, development and testing of new products, or delay until a future fiscal year; and cancel grants, planned maintenance, or major activities or events related to agency core functions.

Marketing and Regulatory Programs.—Curtail internal and external hiring; reduce overtime; offer Voluntary Early Retirement Authority (VERA) or Voluntary Separation Incentive Payments (VSIP); cancel or strictly limit monetary awards; rescope information technology (IT) contracts or delay them until a future fiscal year; rescope contracts for facilities and building services or delay them until a future fiscal year; reduce employee training and travel; renegotiate new grants or delay them until a future fiscal year; and rescope planned maintenance or repairs or delay until a future fiscal year.

Departmental Activities.—Curtail internal and external hiring; reduce overtime; offer Voluntary Early Retirement Authority (VERA) or Voluntary Separation Incentive Payments (VSIP); cancel or strictly limit monetary awards; rescope information technology (IT) contracts or delay them until a future fiscal year; rescope contracts for facilities and building services or delay them until a future fiscal year; rescope contracts for program and management support services or delay them until a future fiscal year; rescope contracts for hardware procurement or delay them until a future fiscal year; reduce employee training and travel; rescope planned maintenance or repairs or delay until a future fiscal year; rescope major activities or events related to agency core functions, including the production, development and testing of new products, or delay until a future fiscal year; and cancel grants, planned maintenance, or major activities or events related to agency core functions.

CENTRALIZED SERVICING CENTER

Question. I have been informed that a new procedure is being proposed in the Rural Development mission area for insurance claims above \$30,000. My understanding is that certain claims that have traditionally been handled through the Centralized Servicing Center will now be handled in the field. Is this correct, and if so, what is the justification for this process change, how will the change affect

staff in the Centralized Servicing Center and the field, and how will the change affect rural homeowners?

Answer. During a Management Control Review (MCR) of the Centralized Servicing Center (CSC), it was noted that major development, or rehabilitation-related construction, using insurance claim proceeds was not being completed according to Rural Development's Instruction 1924-A, "Planning and Performing Construction and Other Development". The MCR team noticed that management and documentation of "large loss" development was weak. This weakness may have been the result of a disconnect between tasks performed by the CSC and those assigned to field staff. In addition, current guidance on insurance proceeds administration lacks a clear definition of "major development". After extensive discussions with the MCR team and staff from CSC, it was determined that rehabilitation work using insurance claims proceeds exceeding \$30,000 are considered major development and need to be closely supervised by the field office staff.

Rural Development (RD) proposes to revise existing guidance for administering insurance claims proceeds. For significant rehabilitation (having a total cost of more than \$30,000) all development will be completed under the supervision of the local field office. The idea is to require the use of all construction documents and requirements/methods only when there is a considerable risk to the value of the Government security or the structural integrity of the house. On smaller claims, regulations permit the repairs to be completed in a fashion commensurate with risk to the Government, and will most likely be handled by CSC staff.

We believe that rural homeowners will benefit from this change. Insurance claims exceeding \$30,000 are typically the result of a catastrophic event and field office staff have the construction management expertise needed to assist borrowers throughout the property rehabilitation process. The proposed new procedure allows field staff to work with borrowers early in the development process and ensures that work is completed in accordance with RD Instruction 1924-A, thus minimizing the risk of inadequate development work. By doing this, we protect the Government's security interest and ensure that after the work is completed, the borrower's home is decent, safe, and sanitary.

The new procedure is not expected to have an impact on either CSC or field office staff. Before recommending this change, RD asked a few States to provide information on the number of large insurance checks that have been processed in their States in recent years and to assess the field offices' capacity to manage insurance claims over \$30,000. All the respondents indicated that these large insurance claims are very uncommon (estimated to be 6 percent of the total claims processed fiscal year 2012 at CSC) and field offices are deemed to have the capacity to take on management of insurance claims over \$30,000 on an occasional basis. CSC staff will not be affected for the same reason; the number of large insurance claims is not significant enough to affect their workload. In fact, the revised guidance allows field staff to either establish a supervised bank account at the local level or forward insurance proceeds to CSC's escrow to manage construction funds. Even with the new proposed procedure, CSC staff may be asked to be involved in the administration of insurance claims for major development.

RURAL DEVELOPMENT AND FARM LOAN PROGRAM CONTRACTS

Question. Rural Development and the Farm Service Agency have contracted out significant work in support of the Rural Development and Farm Loan programs, including contracts to support loan processing activities and information technology development. Please provide information on these contracts, including the amount of the contract, how long they have been underway, and how long they are expected to continue. In addition, please explain why USDA has determined that contracting out this work is the best option for the agencies involved, including whether the Department has performed a cost-benefit analysis.

Answer. [Follows:]

RURAL DEVELOPMENT—FISCAL YEAR 2013 CONTRACTS

Centralized Servicing Center (CSC)

1. CBC Innovis—AG-31ME-C-12-1010:
 - Contract amount: \$35,000 for locator services.
 - Period covered: 6-14-13 through 6-13-14.
 - Why contracting is best option: The vendor provides a wide range of resources throughout the country which integrate and interact to obtain information on individuals. The Government has no similar organizational system or network of resources to perform this function at a similar cost for the relatively low volume of searches.

2. CMW & Associates—AG-31ME-D-10-0095:
 - Contract amount: \$2,797,658.83 for prepping, scanning, indexing, and filing.
 - Period covered: 9-1-12 through 8-31-13.
 - Why contracting is best option: CSC utilizes a support service contract to perform centralized services for other agencies utilizing and leveraging CSC's existing infrastructure to increase efficiencies and mitigate overall costs to USDA. Due to length and nature of service agreements, budgeting and fluctuating volumes, staff years are not a viable option at this time.
3. CMW & Associates—AG-31ME-D-12-0026:
 - Contract amount: \$1,254,327.50 for mortgage loan processing services, guaranteed loan appraiser/auditor assistance in reducing backlog of loan loss claims and servicing in the Guaranteed Loan Section (GLS); Single Family Housing-Direct Section; and Multi-Family Legal Liaison Support, which includes providing operational/program analytical skills on each legal action case.
 - Period covered: 9-1-12 through 8-31-13.
 - Why contracting is best option: to supplement existing staff during the current hiring freeze to process loss mitigation, property disposition plans and loss claims for the Single Family Housing Guaranteed Loan Program (SFH-GLP). These contractor employees are necessary to assist CSC in addressing a larger than expected volume of loss mitigation requests, property disposition plans, and loss claims resulting from the recent housing crisis and from the "robo-signing" practices from many of the larger guaranteed lenders. CSC continues to see a future need to supplement its existing guaranteed workforce with contractor personnel to assist with processing the larger than anticipated volume of guaranteed servicing actions and reduce the existing backlogs to bring inventory levels within established regulatory requirements.
4. Corelogic—AG-31ME-C-11-1011:
 - Contract amount: \$1,530,000 for tax services.
 - Period covered: 9-30-12 through 9-29-13.
 - Why contracting is best option: to support loans with escrow accounts for taxes and insurance. It is an industry standard for a tax service provider to be utilized for tax research and payments due to the asset protection provided by an efficient, automated procurement and payment process. The vendor also assumes liability in case of a loss due to properties sold in a tax sale.
5. Corelogic—AG-31ME-C-11-1010:
 - Contract amount: \$10,626,620 for property preservation services for centralized States.
 - Period covered: 9-30-12 through 9-29-13.
 - Why contracting is best option: Property maintenance and preservation services provide guarantees that the Government's interest is protected. For properties that are in foreclosure and have been abandoned and for properties that have been foreclosed upon and are part of the USDA RD Real Estate Owned (REO) inventory, we are required to protect and care for the physical condition of those properties (e.g., mowing grass, cleaning out trash, boarding up and securing and winterizing of pipes). Properties in about half the States are serviced by this contract and efficiencies are realized through a single point of contact and single vendor relationship for these services.
6. Fiserv—AG-31ME-C-10-0016:
 - Contract amount: \$3,319,499.40 for mortgage and loan program services. Task orders associated with this contract total \$4.6 million and extend through 1-31-14.
 - Period covered: 8-27-10 through 2-27-13.
 - Why contracting is best option: It enables the Government to obtain services that are not available in house and a cost-benefit analysis was performed on the contract.
7. Pitney Bowes—AG-31ME-D-11-0016:
 - Contract amount: \$34,446 for postage mailing equipment to cover maintenance, repairs and software on an as needed basis; and provides bulk mailing services.
 - Period covered: 5-1-13 through 4-30-14.
 - Why contracting is best option: Pitney Bowes is a leading industry provider of mail equipment and services which could not be provided by RD personnel.
8. SunTrust—AG-31ME-C-13-1001:
 - Contract amount: \$492,826 for investment and disbursement services.
 - Period covered: 10-11-12 through 10-10-17.
 - Why contracting is best option: The contractor provides the expertise that CSC needs to ensure the custody, disbursement and preservation of principal while maximizing investment returns. CSC utilizes five bank accounts at the contractor for the receipt and disbursement of "escrow funds" (non-Government

funds) on behalf of single family housing borrowers; and a single custody account at the contractor for the accumulation of “net income” from the investing of borrower funds, which is net of all associated contract fees. No cost-benefit analysis was performed since RD is unable to supply the investment and banking services that were required under the contract while ensuring no co-mining of borrower escrow funds with Government funds.

Procurement and Administrative Services

1. Central Paper Stock—AG-31ME-C-11-0051:
 - Contract amount: \$59,800 for destruction and disposal of sensitive documents.
 - Period covered: 09-27-11 through 09-30-16.
 - Why contracting is best option: Services are needed to remove recyclable materials and destroy sensitive materials that require shredding prior to disposal for security reasons. The contract covers warehousing services in addition to removal, destruction, shredding, and disposal services.
2. Challenge Unlimited—AG-31ME-C-10-0009:
 - Contract amount: \$306,036 for warehousing services of RD forms, supplies, equipment, and other items.
 - Period covered: 09-01-10 through 10-1-15.
 - Why contracting is best option: No Government employees perform warehousing services or distribute/ship products and items to employees nationwide.
3. First Choice—AG-31ME-C-12-0014:
 - Contract amount: \$84,854 for courier services.
 - Period covered: 07-02-12 through 07-02-17.
 - Why contracting is best option: No Government employees perform courier or courier-related services, including picking up and delivering checks from lockboxes.
4. MERS Goodwill—AG-31ME-C-09-0006:
 - Contract amount: \$420,291 for full-service mail operation and for construction and warehousing labor services.
 - Period covered: 02-26-09 through 09-30-13.
 - Why contracting is best option: No Government employees perform full-service mail operations; or furniture and cubicle construction, maintenance, and warehousing services.
5. Pitney Bowes—AG-31ME-D-11-0006:
 - Contract amount: \$59,800 for postage system and meter heads, which process daily USPS, Priority, Register, and Return Receipt Mail.
 - Period covered: 02-28-11 through 02-28-15.
 - Why contracting is best option: A contract for the system and equipment is more cost-effective than purchasing an updated system and equipment.

Deputy Chief Financial Officer (DCFO)

1. Solutions Data System—AG-31ME-P-08-0021:
 - Contract amount: \$14,486.85 for data conversion services for the 1st and 2nd quarters.
 - Period covered: 4-17-13 through 5-16-13.
 - Why contracting is best option: The contract was put in place so that Accounting Data (banking transactions) could be converted, transmitted electronically and in real-time. A cost-benefit analysis was performed that showed contracting out is more cost-effective than providing the services in house.

Deputy Chief Information Officer (DCIO)

1. QFLOW—AG-31ME-D-09-0026:
 - Contract amount: \$1,249,187.00 for imaging and document management.
 - Period covered: 9-18-12 through 9-17-13.
 - Why contracting is best option: A contract is needed to maintain licensing and obtain technical support for services to provide maintenance support and enhancement development to the Rural Development FileNet Imaging System and the USDA Enterprise Content Management System utilizing Oracle's Stellent document management. Additional certifications are required for services that are only available through contracting.
2. Rose International AG—31ME-C-12-0018:
 - Contract amount: \$1,587,026.00 for Oracle Hyperion and OBIEE services.
 - Period covered: 9-29-12 through 9-28-13.
 - Why contracting is best option: Support services are needed to administer the systems and the development of Hyperion and OBIEE reports. Although no formal cost-benefit analysis was completed, it is more cost-effective to obtain these services through contracting from a vendor who can provide well-trained and experienced personnel. Contracting out also provides additional flexibility for

- large or multiple projects in a given time period where it is necessary to quickly expand or reduce the size of teams.
3. Rose International AG—31ME-C-09-0019:
 —Contract amount: \$3,179,924.28 for technical support services, which includes maintenance for the Automated Multi-family Accounting System (AMAS) at a cost of \$618,688.44.
 —Period covered: 8-31-12 through 7-31-13.
4. Unisys (CLP)—AG-31ME-C-10-0013:
 —Contract purpose: maintaining and implementing upgrades/enhancements to the automated components that support the direct loan and grant and guaranteed loan programs. See task order (TO) amounts below.
 —Period covered: 5-10-13 through 5-9-14.
 —Why contracting is best option: Although no formal cost-benefit analysis was completed, contracting out enables RD to obtain services from a vendor who can provide well-trained and experienced personnel. It also provides additional flexibility for large or multiple projects in a given time period where it is necessary to quickly expand or reduce the size of teams.
 —Associated Active TO AG-31ME-D-12-0036.
 Contract amount: \$291,843.47 for maintaining and implementing upgrades/enhancements to the automated components that support the direct loan and grant and guaranteed loan programs.
 —Period covered: 9-28-12 through 9-27-13.
 —Why contracting is best option: Although no formal cost-benefit analysis was completed, contracting out provides additional flexibility for large or multiple projects in a given time period where it is necessary to quickly expand or reduce the size of teams.
 —Associated Active TOs, amount, customer and period covered:
 —AG-31ME-D-10-0083—\$219,715.79—Automated Multi-family Accounting System (AMAS)—9-13-10 to 3-31-13.
 —AG-31ME-D-10-0098—\$2,129,810.82—Date Warehouse (DW)—9-29-10 to 4-2-13.
 —AG-31ME-C-11-0046—\$3,057,973.90—OM/HD—9-26-12 to 9-25-13.
 —AG-31ME-D-12-0005—\$249,999.70—Community Program Application Processing (CPAP)—2-15-12 to 2-14-13.
 —AG-31ME-D-12-0013—\$5,429,258.82—Comprehensive Loan Program OM (CLP OM)—8-1-13 to 6-30-14.
 —AG-31ME-D-12-0025—\$1,797,930.15—E-Government (EGOV)—9-1-12 to 7-31-13.
 —AG-31ME-D-12-0029—\$249,935.40—Guaranteed Loan System (GLS) Loan Close—9-28-12 to 9-30-13.
 —AG-31ME-D-12-0031—\$63,943.10—RD Intranet—9-28-12 to 4-30-13.
 —AG-31ME-D-12-0037—\$399,844.69—Comprehensive Loan Program (CLP) Initiative—9-28-12 to 9-27-13.
 —AG-31ME-D-12-0028—\$59,977.81—CASH—9-28-12 to 3-31-13.
 —AG-31ME-D-12-0040—\$604,489.00—Rural Electric and Telephone (RET)—9-29-12 to 9-28-13.
 —AG-31ME-D-12-0036—\$291,843.47—Deputy Chief Financial Officer (DCFO)—9-28-12 to 9-27-13.
 —AG-31ME-D-12-0032—\$692,148.80—Broadband Collection Application System (BSAC)—5-1-13 to 9-30-13.
5. Unisys (GLS)—AG-31ME-C-09-0021:
 —Contract amount: See below TOs totaling over \$2 million for a support contract to develop the necessary user documentation to support the implementation of Phase 3 of the Guaranteed Single Family Housing Annual Fee Project.
 —Period covered: 9-1-12 through 8-31-13.
 —Why contracting is best option: Although no formal cost-benefit analysis was completed, contracting out provides additional flexibility for large or multiple projects in a given time period where it is necessary to quickly expand or reduce the size of teams.
 —Active TOs, amount and period covered:
 —AG-31ME-C-11-0014: \$1,189,765.64. Period covered 9-30-12 through 7-31-13.
 —AG-31ME-D-10-0085: \$845,540.50. Period covered 9-13-10 through 6-30-13.

FARM SERVICE AGENCY—FISCAL YEAR 2013 CONTRACTS

1. Program Loan Accounting System (PLAS)—AG-3151-C-11-0019 Bluemont Technologies, Inc.

- Contract amount: \$4,711,162.35 to maintain the expiring legacy system until it is re-engineered to a Web-based system.
- Period covered: A 5-year contract was awarded for 07-01-11 through 09-30-15.
- Why contracting is best option: contracted maintenance of the expiring system is needed because:
 - Government PLAS legacy knowledge has been lost to attrition;
 - It is not cost-effective or beneficial to the future of FSA's programs to recruit and train Government employees on old technology and platforms; and
 - Government resources can be dedicated to supporting newly developed Web-based systems and inherently Government functions.
- FSA has complied with the FAR 39.102 requirement to analyze risks, benefits and cost in its USDA and OMB information technology submissions. FSA performs continuous collection and evaluation of risk-based assessment data through monthly review of invoices (hours used and funding burn rate) and comparison of scheduled milestones in the project schedule to determine cost, schedule, variances and risk. Post implementation reviews are conducted to determine actual project cost, benefits and returns. The quantifiable measures are captured and analyzed on a monthly basis and an associated risk is deduced from the analysis.

Appraisals

2. AgWare—AG-3151-C-10-0009:

- Contract amount: \$543,780.00 for a complete commercially available off-the-shelf appraisal PC-based software system that encompasses the features and data required to complete both an Agricultural Real Estate Appraisal and a Housing Appraisal. It is a complete package that can be used even when network connectivity is not available (i.e., remote areas). It creates reports and performs third-party mapping, sketching, deed plotting, scanning, image file importing and integrating with Arc GIS software.
- Period covered: A 5-year contract for 05-25-10 through 05-24-14.
- Why contracting is best option: it provides functions not performed by Government employees.

3. Marshall & Swift/Boeckh (MSB)—AG-3151-C-12-0031:

- Contract amount: \$622,400.00 for commercial off-the-shelf (COTS) software that is a Web-based hosted application which provides quarterly updates and unlimited use of free technical support services available via an annual subscription. The cost estimators are used as support and documentation of cost of improvements in the appraisal process.
- Period covered: A firm fixed-price 5-year contract was awarded for the period 09-25-12 through 09-24-17.
- Why contracting is best option: This contract provides functions not performed by Government employees. MSB provides National Residential, Commercial, and Agricultural Estimating Software and Support.

4. Farm Business Plan (FBP)—AG-3151-C-11-0029—WebEquity Solutions, LLC:

- Contract amount: \$10,885,250.00 for a commercial off-the-shelf (COTS) farm business planning and financial/credit analysis Web-based software package.
- Period covered: A firm fixed-price 5-year contract was awarded for the period 09-30-11 through 09-29-16.
- Why contracting is best option: This contract provides functions not performed by Government employees.

5. Farm Loan Program Information Delivery System (FLPIDS)—AG-3151-C-12-0032:

- Contract amount: \$25,564,663.16 for Information Technology Services.
- Period covered: A 5-year contract was awarded on 09-26-12 through 09-25-17.
- Why contracting is best option: The Government does not have the current capability or expertise to perform the type of service provided by FLPIDS. Inherently governmental functions are not applicable to this solicitation pursuant to FAR subpart 7.5.
- FSA has complied with the FAR 39.102 requirement to analyze risks, benefits and cost concerning FLPIDS in its USDA and OMB information technology submissions. Lifecycle cost—There have been prior investments in pre-existing 2004 FLPIDS, GS-06F-05 5OZ, AG-3151-D-09-0156, AG-3151-D-10-0137 and AG-3151-C-11-0028 which will be added to by current FLPIDS procurement.

2. Rural Development Reimbursable Agreements:

- Farm Service agency has reimbursable agreements for Rural Development to use the:
 - Guaranteed Loan System; and
 - Program Funds Control System.

QUESTIONS SUBMITTED BY SENATOR TOM UDALL

RURAL DEVELOPMENT

Question. Secretary Vilsack, in New Mexico, the Rural Development office is down to 39 employees, 6 months ago the New Mexico office had 44 employees, and in 2011 the office had 53 employees. This decline in employees is resulting in programs being shut down as the 2-year hiring freeze continues. I understand that these are difficult times, and that the sequestration is making budgets even tighter. My concern, however, is about the disparity between the number of employees in western States compared to those east, and whether or not the resources we do have are reaching the rural and poor communities that they are intended for.

According to your staff, in May 2012 about 12 States had over 100 Rural Development employees, while States like Nevada, Alaska, Colorado, Utah, Wyoming, and New Mexico had well under 50. These are some of our country's most rural States.

According to the most recent data published by USDA, New Mexico has the second highest poverty rate in the United States for both adults and children. New Mexico's rate of poverty is roughly 30 percent higher than the national average. New Mexico is also one of the most rural States. If there is a region that needs the resources that Rural Development provides, it is New Mexico.

Could you help the subcommittee understand how this disparity in Rural Development efforts has come to be, and what the agency is doing or can do to ensure a more equitable distribution of resources?

Answer. When faced with sequestration of funds, Rural Development (RD) considered several options when looking for ways to meet the funding levels. One of those options was offering RD employees early retirement and not filling many positions. As a result of these retirements and the freeze on hiring, Rural Development lost approximately 18 percent of its workforce. Unfortunately, these losses were not equally divided by program or geography. We recognize that many States are struggling to provide services and are looking at ways to correct these inequities.

In the last year, RD has also reexamined its FTE allocation formula and adjusted it to provide greater weight to States with deeper poverty. We continue to examine this formula.

Question. What kind of impact does a declining staff have on the distribution of grants and loans in a State like New Mexico?

Answer. Loss of staff slows down the processing time for loans and delays the distribution of grant funds.

Question. I am concerned about whether or not Rural Development resources are reaching the rural and poor communities that they are intended for. In New Mexico there are many very small and very rural communities that have a hard time accessing grants and loans through Rural Development because they do not have the personnel and even infrastructure, like Internet service, to successfully apply for and manage grants and loans.

Could you share with the subcommittee how the President's budget would ensure that Rural Development funds in fiscal year 2014 make it to the small and very rural communities who need it most?

Answer. Rural Development is working closely with the USDA Office of Advocacy and Outreach to make sure that the citizens and communities who need assistance the most are aware of what our programs can do and how to apply. Also, in 2010, the Department implemented the "StrikeForce Initiative" to increase participation in USDA programs in high poverty counties. Many of the RD programs provide additional points to the smaller communities competing for funding.

Question. What kind of technical assistance is available for communities who may not have a full time employee to write a grant application or manage a loan?

Answer. Most Rural Development programs are administered through our State and Area Offices, and the majority of direct support and assistance in preparing a grant application will come from these offices. However, while RD staff can provide support and guidance in developing an application, they do not participate in the actual writing of the grant or loan proposal.

Through existing programs, Rural Development supports a number of University and nonprofit organizations who provide direct technical assistance to prospective

program applicants through programs such as the Rural Business Enterprise Grant, Rural Business Opportunity Grant, and Rural Cooperative Development Grant programs. Through a variety of methods (i.e., business incubators, cooperative development centers), recipients of funding from these programs have delivered technical assistance and other services to individuals and communities seeking to apply for RD programs.

Further, several existing programs contain components that can provide application development assistance. For example, the Agricultural Marketing Resource Center (AgMRC) which is funded out of the Value Added Producer Grant (VAPG) program is a free, virtual resource for producers looking to get into a value added agricultural business. The AgMRC Web site provides an array of resources, including business planning tools, budget templates, and marketing plans that can be used to address requirements in a grant application.

STRIKEFORCE PROGRAM

Question. Secretary Vilsack, it is my understanding that your StrikeForce Program is targeting USDA assistance to communities in New Mexico.

Could you share with the subcommittee how this program is helping communities in New Mexico, and what kind of results you are seeing from the program in New Mexico?

Answer. The New Mexico Farm Services Agency (FSA), Natural Resources Conservation Service (NRCS), and Rural Development (RD) agencies continue to improve and widen USDA outreach efforts.

Since being identified as a StrikeForce State, the RD staff has worked to expand and establish new partnerships with various organizations to help provide greater use of Rural Development's (RD) resources. Partnership examples include the YWCA in Sunland Park and the Southwestern Regional Housing and Community Development Corporation (SRHCDC), another nonprofit organization based in Deming, New Mexico. The YWCA is helping individuals and families with homebuyer education classes and counseling designed to help the borrower be more successful as a homebuyer and homeowner. The Southwestern Regional Housing and Community Development Corporation (SRHCDC) another nonprofit organization based in Deming has stepped up its relationship with USDA Rural Development since Luna County was designated a StrikeForce county. The organization has become a major partner with Rural Development in single family housing, multifamily housing, and business programs. USDA's partnership with SRHCDC has increased the delivery of USDA loans to these border communities.

FSA partnered with NRCS to assist groups of producers, who irrigate from traditional Acequias, to submit applications for the Environmental Quality Incentives Program (EQIP). Multiple workshops have been held around the State to educate these producers about the EQIP program and the application process. This collaboration gives producers the benefit of learning more about EQIP while also learning FSA's eligibility process regarding farm records, Adjusted Gross Income provisions, and other FSA programs. The first of its kind NRCS Acequia EQIP contract was approved in July 2013. The Acequia Initiative, along with many others, are StrikeForce projects that provide direct additional resources to better serve our farmers, ranchers, and producers in persistently poor rural communities. The focus is on these identified high-poverty areas to help improve the quality of life of farmers, ranchers, producers, and their communities.

NRCS hosts its fourth Conservation Planning Initiative (CPI) workshop—this time in Los Lunas in October 2013. The target groups include women, Hispanic, and Native American small agricultural producers. Participants are thoroughly immersed in the process of developing and the significance of having a viable Conservation Plan. These CPI workshops have been well received in Las Cruces, Carrizozo, and Chama communities. NRCS New Mexico is also restructuring itself to make more of its specialists available to agricultural producers across New Mexico—particularly in StrikeForce recognized areas. This leads to more customized service for those who need it most.

As of mid-June, New Mexico FSA Farm Loan Programs expects to approve more than \$24 million through nearly 190 loans in fiscal year 2013. Approximately 75 percent of those will be Direct Loans totaling over \$11.6 million. Nine are currently waiting on funding of about \$865,000; nearly one in five Direct Loans will be Micro Loans totaling nearly \$711,000; and 40 loans are currently waiting on \$55,200 in funding. The total loans projected for approval through June 2013 also include 36 Guaranteed Loans totaling \$12.6 million.

ALFALFA AND FORAGE RESEARCH

Question. Secretary Vilsack, In the last Congress, I joined with several of my Senate colleagues in urging Appropriations Committee to include funding for the Alfalfa and Forage Research Program in the fiscal year 2013 agriculture appropriations bill. It is my understanding that language expressing the Committee's support for such research was included in the fiscal year 2013 continuing resolution, but that to-date, no funds have been allocated for the Alfalfa and Forage Research Program.

Does the USDA plan to allocate funds for the Alfalfa and Forage Research Program in fiscal year 2013 as recommended by the Committee?

Answer. USDA is allocating funds for alfalfa research in ARS and NIFA. ARS scientists are conducting alfalfa genetic improvement and marker selection research for biotic and abiotic stresses to build a genetic pipeline to help accelerate the development of superior performing plants. The ARS Plant Germplasm Introduction and Testing Research Station expands the genetic diversity in the U.S. alfalfa germplasm collection, improves availability of information about alfalfa genetic resources, and distributes pathogen-tested samples.

For fiscal year 2013 and fiscal year 2014, ARS has developed a coordinated national research plan to increase the impact of agency alfalfa research and to build effective linkages with university and industry partners. The coordinated plan addresses three broad areas of research that provide value to the alfalfa, forage, and dairy industries including, but not limited to the following: (1) germplasm improvement (yield, biotic and abiotic stress, marker assisted selection); (2) management for animal nutrient intake and for revenue lines; and (3) ecosystem services (rotational effect, soil health [N, P, K microbes], and carbon sequestration).

Funding for ARS research activity related to alfalfa is as follows: \$3,367,000 in fiscal year 2009; \$4,124,000 in fiscal year 2010; \$3,768,000 in fiscal year 2011; \$4,322,000 in fiscal year 2012; \$4,322,000 estimated in fiscal year 2013; and \$4,516,000 estimated in fiscal year 2014.

In NIFA, a specific program directed at alfalfa was not implemented in fiscal year 2013, but report language will be considered when drafting fiscal year 2014 RFAs. For example, work on alfalfa and forages will be explicitly included, where appropriate, in fiscal year 2014 RFAs for the Agriculture and Food Research Initiative (AFRI). Alternative capacity funding (from Hatch Act, McIntire-Stennis, and/or Smith-Lever 3(b) and (c)) may be used to support aspects of this topic area deemed to be of priority at State and/or local levels. The active AFRI, Hatch, and Biotechnology Risk Assessment program projects include, but are not limited to, alfalfa topics such as: understanding of and mitigation strategies for co-existence/gene flow in alfalfa; improving alfalfa quality and production as a biofuel feedstock; enhancement of alfalfa forage quality for animal feed by alfalfa breeding and genetic improvements; developing tolerance to changing climatic conditions and biotic diseases in alfalfa production by breeding and genetic enhancement technologies; and understanding interactions of symbiotic bacteria with their alfalfa host in fixing nitrogen from the soil. Other programs have also included alfalfa in multi-crop studies.

Funding in support of NIFA research on alfalfa is as follows: \$2,425,000 in fiscal year 2009; \$2,025,000 in fiscal year 2010; \$1,264,000 in fiscal year 2011; and \$1,264,000 estimated in fiscal year 2012.

WILDLIFE SERVICES

Question. Secretary Vilsack, it is my understanding that the President's budget includes an increase in Wildlife Services funding to bring the fiscal year 2014 total up to \$104 million. The work that Wildlife Services does in New Mexico is very important for producers, especially at this time when feral hogs continue to spread into the State and threaten landscapes and animals.

How will the funding proposed by the President in fiscal year 2014 help to deal with the impacts of feral hogs across the country?

Answer. The President's budget includes \$20 million to implement a national strategic plan to conduct integrated feral swine removal, to reduce property damage, and reduce threats to agriculture and urban areas. USDA will work with Federal, State, and local entities to carry out this control program in the 38 States where feral swine are located. The program will focus control efforts on reducing populations and excluding feral swine from agricultural resources in States where feral swine are well established. In States where feral swine are emerging or populations are low, the program will focus on eliminating animals. The requested funds will also enable USDA to develop new and improved control tools; conduct economic analysis and risk modeling and develop outreach materials and activities.

USDA will also conduct disease monitoring and diagnostic testing for diseases that may pose risk to domestic livestock or human health. As feral swine quickly

establish themselves throughout the Nation, they carry numerous endemic diseases that could be transmissible to humans, domestic livestock, or other wildlife species. The requested funds allow for the early detection of diseases in feral swine. Currently, risk analysis and mitigation is based on opportunistic sampling of feral swine collected near farms. USDA will conduct target sampling to improve the understanding of risks and to develop mitigation measures for reducing disease threats that feral swine pose.

Question. Will the \$104 million requested by the President allow USDA to meet the demand for assistance from Wildlife Services?

Answer. USDA cooperates with Federal, State, and local agencies and public stakeholders on all Wildlife Services programs. To carry out these programs, APHIS uses a variable cost-share formula based on the core mission, strategic and program priorities, whether the activity substantially enhances the program's efficiency, whether it is appropriate for the cooperator to contribute more under a particular agreement, and the cooperator's ability to pay toward the program. As a result, cost-share varies by State, cooperator, and project. In fiscal year 2014, USDA is seeking higher contributions from cooperators who pay less than the amount the Federal Government pays. Although USDA attempts to respond to all requests for assistance to the greatest extent possible, some program needs cannot be met without an increased cooperator contribution.

NATIONAL SCHOOL LUNCH PROGRAM

Question. Secretary Vilsack, you were asked by members of this subcommittee about the temporary change in rule the USDA made to allow no limits on weekly grain and protein for school lunches, while keeping calorie limits in place. It is my understanding that this temporary change has been very well received by schools and school nutritionists. You also mentioned the possibility of making this rule change permanent.

Is this change in school lunch protein requirements something you are considering making permanent?

Answer. The current flexibility on portion sizes for grains and proteins lasts through the end of school year 2013–2014. USDA has no intention of discontinuing that flexibility. The Department is committed to making the current flexibility permanent by the end of the calendar year 2013.

Question. Does the USDA have the authority to make such a change permanent?

Answer. Yes, USDA set the limits and has the authority to make such a change permanent through regulation. One of our top regulatory priorities is to complete the regulation that will make the grains and meats/meat alternates flexibility permanent in calendar year 2013.

Question. Since 1946, when the act was first signed by President Truman, until last year, the Federal Government deferred to the local school food authority and school board to set the price of a "paid" meal. This was changed in the last child nutrition reauthorization in an effort to drive more non-Federal money into the program. However, I have heard concerns that not all communities can afford the newly set prices for school lunches, and that paid participation has declined in some schools due to the price increase.

Could you share with the subcommittee what kind of response you have been receiving from schools and parents about prices set for "paid" school meals?

Answer. USDA received only 96 comments on the interim rule published on June 17, 2011, implementing the increase to paid lunches. About half of these comments came from school districts. Of the school districts that did comment, many of them stated that school lunch prices should be set at the local level citing local economic circumstances as a main contributor to setting paid lunch prices.

A few comments suggested that we allow a la carte sales as a non-Federal source of revenue to support paid meals.

In response to comments on the interim rule, on April 17, 2013, FNS issued new flexibilities school districts may use when implementing the Paid Lunch Equity requirement for school year 2013–2014. For school year 2013–2014, FNS expanded the definition of a non-Federal source school districts can use in lieu of raising paid lunch prices to include State or local funds for any paid meal including breakfast or snacks. Additionally, State agencies, upon request by a district, may exempt the district from the requirement to increase prices or add funding to the school food service account if the school district can demonstrate that it already has sufficient revenue to operate a meal program that meets or exceeds all the nutritional and administrative requirements of the program.

Outside of the formal rule comment process, USDA has received positive feedback from school districts wanting to raise their paid lunch prices as a way to increase

revenue but have not been allowed by their school boards. While some districts are concerned about losing participation, they understand increasing revenues from paid lunches is a way to improve the financial standing of their foodservice account and improve the overall quality of meals.

Question. Have you seen any decline in paid participation due to increases in meal prices?

Answer. Based on the additional flexibilities offered and feedback received from districts thus far, if there is any impact on participation, USDA would expect it to be minimal. Because multiple changes have been occurring simultaneously in school meals, it is not feasible to determine, at this time, the precise relationship between this particular policy and participation in the program. USDA will continue to collect data on program participation and work with States to monitor participation.

QUESTIONS SUBMITTED BY SENATOR SUSAN M. COLLINS

AGRICULTURAL MANAGEMENT ASSISTANCE

Question. Mr. Secretary, potato production is an important component of Maine's economy. Maine is eighth in the Nation in potato production and fifth in acres harvested. Drought is a significant concern to our potato farmers, and many struggled with drought conditions in 2012. Farmers without the ability to irrigate experienced dramatically reduced yields and smaller potatoes. The Agricultural Management Assistance (AMA) program administered by NRCS provides management and technical assistance to farmers by incorporating conservation into their water management, water quality, and erosion control operations. In Maine, AMA and EQIP funds have been extremely helpful to Maine potato farmers. EQIP funds, however, can only be used on land that is already being irrigated. AMA funds can be used on new projects and to increase the number of farmers who are irrigating. Maine is one of the 16 States for which AMA is available (where participation in the Federal Crop Insurance Program is historically low). Additional AMA funds for potato farmers in Maine could be extremely consequential in assisting farmers who do not currently have the ability to irrigate. Mr. Secretary, can additional AMA funds be made available to Maine potato farmers?

Answer. The Food, Conservation and Energy Act of 2008 (section 2801(b)(ii)) authorized \$15 million in Agricultural Management Assistance (AMA) funding for fiscal years 2008–2012, and requires that not less than 50 percent of that funding be provided to NRCS. Section 716(a) of the Consolidated and Further Continuing Appropriations Act, 2012 (Public Law 112–55) reauthorized the funding through fiscal year 2014. However, a \$5 million savings proposed in fiscal year 2014 would reduce the total authorized level to \$10 million and NRCS's portion to \$2.5 million, since the entire savings is applied to the NRCS portion of the authorized funding.

We recognize that this program has been of significant value to Maine's producers and the demand for AMA funding in Maine reflects that value. In fiscal year 2011 Maine received \$2.13 million of AMA financial assistance (36 percent of the total available); \$279,000 (14 percent of total) in fiscal year 2012; and \$391,000 (20 percent of total) in fiscal year 2013. Due to high demand in Maine compared to other AMA States, Maine has been able to obligate additional funds that were originally allocated to other AMA States but were returned before the end of the fiscal year. We will continue to support funding AMA for Maine and other States with new and existing AMA projects.

FEDERAL MILK MARKETING ORDERS—DAIRY PRICE REFORM

Question. Secretary Vilsack, I remain very concerned about milk pricing and have joined with Senator Kirsten Gillibrand of New York to introduce the Dairy Price Reform Act of 2013. Dairy farmers in Maine are under severe financial stress due to a number of factors beyond their control, including high energy prices, escalating feed prices, and the wildly fluctuating price paid for their milk. This legislation would require USDA to initiate hearings about restructuring the milk pricing system and directs the Secretary of Agriculture to release recommendations to Congress. The legislation also enables you to dispense with the pre-hearing requirements in the bill and to initiate a formal hearing at any time. Mr. Secretary, could you please provide us with your views on Federal milk marketing orders and also give us your opinion on the possibility of accomplishing dairy price reform in a realistic timeframe?

Answer. Federal milk marketing orders are not designed to be a price or income support program. They are voluntary marketing tools requested by producers or their cooperatives for specific geographic areas in the country. Our 10 marketing

areas cover about 65 percent of the milk produced in the United States. Marketing orders help facilitate the efficient marketing of milk and dairy products by maintaining a balance in negotiating power between dairy farmers and milk processors. Federal milk marketing orders enforce market-based minimum payments to farmers, monitor the accuracy of milk weights and tests, and provide extensive equal access market information to all segments of the industry to support marketing decisions.

A formal hearing process is used to establish and make amendments to Federal milk marketing orders. In the 2008 farm bill, Congress provided timeframes for making amendments to orders. We have adopted supplemental rules and held three hearings under these rules that have each met or exceeded the timeframe deadlines. I believe the current timeframes provide a realistic benchmark for making changes. However, we need to keep in mind that major changes, such as a sweeping modification to how we establish minimum prices under Federal milk marketing orders needs sufficient time for careful and thoughtful contemplation of impacts. The timeframes of the Dairy Reform Act of 2013 (S. 670) and as outlined in section 1462 of S. 954, Agriculture Reform, Food, and Jobs Act of 2013 should provide USDA with adequate timeframes for accomplishing dairy price reform.

POULTRY SLAUGHTER MODERNIZATION

Question. Mr. Secretary, a front page article in the Washington Post on April 25, 2013, detailed questions and concerns surrounding the increased use of possibly toxic, bacteria-killing chemicals in poultry processing plants. As the Department of Agriculture is poised to implement new rules that would modernize the poultry inspection slaughter system, including increasing line speeds, I am concerned about the impact of these new rules not only on worker safety, but on public health. With the number of chemical treatments to disinfect poultry carcasses likely to increase at processing plants, what steps will your Department be taking to assure that worker health concerns are adequately addressed? In addition, how can your Department be sure that increased line speeds and reductions in the numbers of on-line inspectors will result in a higher level of food safety?

Answer. The modernization plan will protect public health, improve the efficiency of poultry inspections in the United States, and reduce spending. The new inspection system will reduce the risk of foodborne illness by focusing FSIS inspection activities on those tasks that advance our core mission of food safety. By revising current procedures and removing outdated regulatory requirements that do not help combat foodborne illness, the result will be a more efficient and effective use of taxpayer dollars.

Regarding the effects this rule will have on chemical usage in plants, generally plants determine how they meet FSIS standards. They have many tools at their disposal to choose from—antimicrobial interventions used at appropriate levels are one. FSIS has examined HACCP-based Inspection Model Program (HIMP) and non-HIMP plants' usage of antimicrobials. The majority of plants were found to have chosen to use chemical/antimicrobial steps to help meet FSIS' targeted salmonella/campylobacter reductions, with no particular pattern whether the plant is HIMP or non-HIMP.

In the course of the development of this rule, the issue of worker safety in poultry plants has been raised. The data that we have to date does not show any link between this new type of inspection system and increased risk for poultry industry employees or for our own inspection personnel. While we as a food safety agency do not have the ability or expertise to regulate worker safety, we have been working closely with the Occupational Safety and Health Administration and the National Institute for Occupational Safety and Health on important efforts to strengthen the Federal Government's data collection and enforcement activities in this area.

FSIS put forward this modernization proposal because the Agency's risk assessment demonstrates that the system it embodies will prevent foodborne illnesses—approximately 5,000 per year. It will prevent illnesses by making common sense, scientifically verified changes in the way inspection personnel do their work in plants.

QUESTIONS SUBMITTED BY SENATOR JERRY MORAN

IMPLEMENTATION OF NEW SCHOOL MEAL PATTERN REGULATIONS

Question. Schools across Kansas have been working hard to implement the new regulations for lunches served at school. While schools and students are still adjusting to the new lunch regulations, another change is scheduled to take effect at the

beginning of the 2013 school year when the new breakfast regulations go into effect. What outreach has USDA done to make sure the type of problems we saw with the implementation of the lunch regulations do not also occur next fall when schools are required to change the breakfasts they serve? Furthermore, has USDA consulted with school nutrition professionals to determine if they are ready to make the breakfast changes this fall?

Answer. While the majority of updates to the school lunch program occurred in school year 2012–2013, the changes to breakfast are being phased in over multiple years. In this coming year the only changes schools will need to make are increased whole grains and new weekly calorie ranges. Increased fruit offerings will become effective in school year 2014–2015. The first sodium limits will be implemented in school year 2014–2015 and the final targets will be reached in school year 2022–2023. This phased-in approach will allow both industry and food service operators ample time to create appealing food items and menus that students will accept. Additionally, the breakfast meal pattern readily provides operators with much menu planning flexibility. For instance, while neither meats/meat alternates nor vegetables are required at breakfast, operators may choose to offer these foods and credit them in the reimbursable meal.

In addition to existing technical resources available on the USDA Web site, as the start of the school year approaches, we will offer Webinars and social media activities and provide further information on what's new for school breakfast in 2013–2014. The agency is also working on an update to its breakfast toolkit resources, which empower program operators with information about starting or expanding school breakfast service, evaluating costs and serving methods, and marketing the program to key stakeholders. The toolkit also assists operators with implementation of the upcoming changes by providing sample menus and suggestions for offering healthy and appealing meals in compliance with the new meal pattern. Additionally, USDA has partnered with the President's Council on Fitness, Sports, and Nutrition to produce promotional materials, including posters and public service announcements, on breakfast. These materials promote the importance of eating a healthy breakfast for all students and are intended to maintain or increase participation in the SBP.

USDA has consulted with school nutrition professionals through various formal and informal channels including national conferences, State agency trainings, and phone and email inquiries. USDA will continue to provide technical assistance and outreach to schools and program partners and anticipates that the phased-in implementation timeline and numerous flexibilities built into the breakfast meal pattern will result in successful implementation of breakfast in most schools this coming year.

QUESTIONS SUBMITTED TO HON. PHYLLIS K. FONG

QUESTIONS SUBMITTED BY SENATOR TOM UDALL

Question. Inspector General Fong, I would first like to applaud you for the efforts you and your team have taken to ensure that the USDA is running in the most ethical and efficient way possible. From your testimony, I understand that the work you are doing results in huge amounts of money for the USDA to use in areas that are effective. I understand your financial impact in 2012 was around \$1.5 billion.

I understand that much of your work focuses on combating fraud within the SNAP program. This is a very important and often discussed effort.

Could you give the subcommittee your view of how the SNAP program is doing in terms of insuring that taxpayer dollars are being well spent?

Answer. By far the largest program within the U.S. Department of Agriculture (USDA), the Supplemental Nutrition Assistance Program (SNAP) provides monthly food assistance and nutrition for the health and well-being of more than 47 million low-income individuals. Due to the economic downturn, program participation has grown by 80 percent since fiscal year 2007 and over \$74.5 billion in benefits was disbursed in fiscal year 2012. Given the program's significance, fraud committed by both SNAP recipients and the retailers that redeem SNAP benefits is a critical concern. With increased participation comes increased risk, and past audit work has found that the Food and Nutrition Service (FNS) needs to redouble its efforts to enforce its policies against such fraud as trafficking,¹ and to establish strong internal controls to prevent it.

¹ Trafficking is the exchange of benefits for cash or other compensation.

Recognizing this challenge, FNS has taken measures in recent years to strengthen its oversight of SNAP in three key areas: (1) reducing improper payments and errors; (2) combating the abuse and misuse of benefits; and (3) better pursuing recipient fraud. While FNS has made progress, further efforts are needed to fully utilize available resources and to ensure taxpayer dollars are well spent.

Since September 2012, OIG has issued four national audit reports² that help define how well SNAP is doing to ensure taxpayer dollars are spent well. We found that FNS needs to better detect and prevent recipient fraud. FNS has agreed to specify a set of tools that States can use for fraud detection, and create associated guidelines for their consistent usage. For example, manual transaction reports are used to identify all activity where retailers manually enter SNAP recipients' EBT card numbers into point-of-sale (POS) terminals. Manual transaction reports are used to detect potentially fraudulent activities between a retailer and recipient where large numbers of manual entries are processed by the retailer. FNS also agreed to assess the feasibility of: (1) creating a uniform method for States to report recipient fraud and (2) conducting a nationwide random sample of SNAP retailers.

We also found that the potential for overlap and duplication exists among FNS' 15 nutrition programs, and determined that FNS may be duplicating its efforts by providing participants total benefits in excess of 100 percent of daily nutritional needs when households and/or individuals participate in more than one FNS program simultaneously. FNS has agreed to determine and document the requirements for conducting a study to identify and determine the extent to which overlap and duplication may exist in FNS' nutritional assistance programs. FNS also agreed to determine whether they have the resources necessary to conduct the assessment of the potential overlap of its nutrition programs, or whether additional funding will be necessary to complete the assessment.

Our recent reviews have also highlighted concerns with how States use and account for the administrative funding provided by the Recovery Act to oversee SNAP. For example, for the Recovery Act, an unprecedented level of transparency, oversight, and accountability was required. Recovery Act funds were to be distributed timely and reported separately from funding provided through routine annual appropriations. We found that FNS made Recovery Act administrative funds available for States to use on a timely basis; however, FNS did not provide adequate accounting guidance, coordination, and oversight to ensure States fully complied with transparency and accountability requirements. Accordingly, we are working with FNS to recover \$470,272 that was spent on unallowable costs.

We have also recently reported on FNS' controls for authorizing, reauthorizing, and disqualifying retailers that participate in SNAP. FNS does not have clear procedures and guidance to carry out key oversight and enforcement activities to address SNAP retailer fraud, or adequate authority to prevent multiple instances of retailer fraud. We recommended that FNS comprehensively review its policies and procedures, seek legislative change to retain a portion of retailer penalties, require background checks for retailers, strengthen internal guidance, improve its automated retailer data system, create and strengthen safeguards for high-risk stores, and require more supervisory reviews. We identified nearly \$71 million in questioned costs and \$6.7 million in funds to be put to better use. FNS agreed with 12 of the report's 20 recommendations. We are continuing to work with the agency to resolve the remaining eight recommendations.

As OIG's audit work moves into fiscal year 2014, we will continue to provide oversight of FNS administration of SNAP. For example, we are currently conducting an audit on the accuracy of the SNAP quality control error rate. For this review, our objective is to determine whether FNS and the State agencies responsible for administering SNAP have adequate controls in place to ensure that SNAP payment error rates are accurately determined and reported, the appropriate actions are taken to reduce the error rates, and errors are timely corrected when detected. We also plan an audit of FNS' implementation of penalties against SNAP retailers. Our planned objective is to evaluate FNS' controls over civil money penalties assessed against SNAP retailers, including oversight of the penalty assessment and collection process. We also plan to determine whether FNS correctly calculated penalties, and whether they follow through to ensure penalties are collected once imposed.

² Analysis of FNS' SNAP Fraud Prevention and Detection Efforts (27002-0011-13, September 2012—this report also consolidates the results of audits performed in 10 States); Overlap and Duplication in Food and Nutrition Service's Nutrition Programs (27001-0001-10, June 2013); Recovery Act Impacts on Supplemental Nutrition Assistance Program Phase II (27703-0001-22, June 2013); and FNS: Controls for Authorizing Supplemental Nutrition Assistance Program Retailers (27601-0001-31, July 2013).

OIG's Office of Investigations collaborates on a regular basis with FNS to address SNAP fraud. For example, as a result of recent discussions, OIG and FNS are coordinating resources on a SNAP initiative aimed at partnering with Federal, State, and local law enforcement and non-law enforcement agencies in three States to combat SNAP fraud. The initiative will focus on ensuring that SNAP benefits are being used for their intended purpose.

Question. How does the SNAP program compare with other programs over which you have oversight?

Answer. When compared to other USDA programs, SNAP has the largest dollar value of improper payments. USDA reported in fiscal year 2012 that in fiscal year 2011, 16 of its programs were vulnerable to significant improper payments ("high risk" programs) and estimated \$5.5 billion in improper payments for that year—a 5.11 percent error rate.³ SNAP, with outlays of \$71.8 billion in fiscal year 2011, had improper payments totaling approximately \$2.7 billion—a 3.8 percent error rate. That is almost 50 percent (\$2.7 billion/\$5.5 billion) of the Department's improper payments in fiscal year 2011.

Other programs in the Department, however, may have higher improper payment rates due to the ratio of improper payments to outlays. For example, the program with the next highest level of improper payments is the National School Lunch Program (NSLP) at approximately \$1.5 billion, or 27 percent of USDA's improper payments. With outlays of just \$10 billion, this translates into an improper payment rate of 15.5 percent for the NSLP. Hence, NSLP's improper payment rate is higher than SNAP's although its dollar value of improper payments is \$1.2 billion less.

The following table, as cited on page 166 of USDA's Agency Financial Report for fiscal year 2012, provides the summary level information for all high-risk programs outlining improper payment rates for the last 2 years and future reduction targets. When a number cannot be provided, an explanation is provided in the notes following. The table includes amounts from program sampling results. USDA programs report results the year following sampling activity. For example, results reported during fiscal year 2011 represent measures of fiscal year 2010 outlays and program activity.

IMPROPER PAYMENT SAMPLING RESULTS

	Results reported in fiscal year 2011			Results reported in fiscal year 2012		
	Outlays	IP (percent)	IP (dollars in millions)	Outlays	IP (percent)	IP (dollars in millions)
Marketing Assistance Loan Program, FSA/CCC [Note #3]	3,054	0.52%	\$16	2,878	0.08%	\$2
Supplemental Nutrition Assistance Program, FNS [Note #8]	64,705	3.81	2,465	71,813	3.80	2,729
National School Lunch Program, FNS [Note #1]:						
Total Program	10,739	15.98	1,716	10,024	15.53	1,557
Certification Error		9.10	977		8.65	867
Counting/Claiming Error		6.88	739		6.88	690
School Breakfast Program, FNS [Note #1]:						
Total Program	2,824	24.96	705	2,987	25.18	752
Certification Error		9.17	259		9.39	280
Counting/Claiming Error		15.79	446		15.79	472
Women, Infants, and Children, FNS [Note #2]:						
Total Program	4,648	4.13	192	4,886	4.13	202
Certification Error Component		3.05	142		2.98	146
Vendor Error Component		1.08	50		1.15	56
Child and Adult Care Food Program, FNS [Note #2]:						
Total Program	2,521	N/A	N/A	2,653	N/A	N/A
FDC Homes—Tiering Decisions	896	1.53	14	900	1.58	14
FDC Homes—Meal Claims		N/A	N/A		N/A	N/A
Milk Income Loss Contract Program, FSA [Note #4]	182	2.00	4	1	N/A	N/A
Loan Deficiency Payments, FSA [Note #5]	0.2	N/A	N/A	0.1	N/A	N/A
Direct and Counter-Cyclical Payments, FSA [Note #3]	3,877	0.05	2	3,867	0.50	19

³ Fiscal year 2012 Improper Payment Elimination and Recovery Act of 2010 Compliance Review (50024-0004-11, March 2013).

IMPROPER PAYMENT SAMPLING RESULTS—Continued

	Results reported in fiscal year 2011			Results reported in fiscal year 2012		
	Outlays	IP (percent)	IP (dollars in millions)	Outlays	IP (percent)	IP (dollars in millions)
Conservation Reserve Program, FSA [Note #3] ..	1,605	1.77	27	1,686	0.36	6
Miscellaneous Disaster Programs, FSA [Note #6]	235	2.90	7	477	2.16	10
Noninsured Assistance Program, FSA [Note #3]	90	8.97	8	69	7.00	5
Wildland Fire Suppression Management, FS [Note #9]	491	0.00	0.0	694	0.00	0.0
Rental Assistance Program, RD [Note #9]	1,020	1.48	15	1,078	3.44	37
Federal Crop Insurance Corporation Program Fund, RMA [Note #7]	5,225	4.72	247	4,249	4.08	173
Farm Security and Rural Investment Act Programs, NRCS [Note #9]	1,433	0.80	11	2,088	0.02	0.4
USDA Total	101,024	5.37	5,428	107,696	5.11	5,507

Source: USDA's Agency Financial Report for fiscal year 2012.

Note #1: Information has not been adjusted for interaction between the different sources of certification error and counting/claiming error. NSLP and SBP estimated improper payment amounts reported for fiscal year 2012 are based on improper payment rates for school year 2010/2011, multiplied by the fiscal year 2011 outlays.

Note #2: WIC and CACFP currently test components of their programs measuring fiscal year 2011 outlays for fiscal year 2012 reporting. CACFP currently tests and reports on the FDCH tiering decision component of the payment process. FNS continues to evaluate the measurement processes for the CACFP meal claim component. The agency has not set a date for measurement and reporting.

Note #3: MAL and NAP information for fiscal year 2012 reporting is based on total outlays for fiscal year 2011. DCP and CRP information for fiscal year 2012 reporting is based on October 2011 through December 2011 outlays, which represent 98.3 percent of the annual outlays for DCP and 94.7 percent of the annual outlays for CRP. The estimated improper payment dollar amounts for MAL, DCP, CRP, and NAP may reflect variances from the relationship between the improper payment percentage and the outlays amount. These variances result from the complex, multi-stage statistical sampling methodology developed by the contract statistician in calculating the independent projections of the dollars and percentages in error. The variances represent a complex ratio estimate weighted with respect to the payments within their applicable county stratification. They reflect the variability within the payment data and occur with a 90-percent confidence level.

Note #4: A full statistical sample was not cost-effective due to low outlays during fiscal year 2011 and the low improper payment rates in previous years. OMB will evaluate MILC activity annually to determine if measurement for a specific fiscal year would be cost-effective.

Note #5: A statistical sample was not performed; it was not cost-effective due to low outlays during fiscal year 2011, and low improper payment rates in previous years. OMB will evaluate LDP activity annually to determine if measurement for a specific fiscal year is cost-effective.

Note #6: FSA measured one component of the several MDP disaster program components for fiscal year 2012 reporting. A full statistical sample of all MDP components was not cost-effective. The Livestock Forage Disaster Program fiscal year 2011 outlays (63 percent of all MDP outlays) were statistically sampled. FSA is undergoing a risk assessment of the Livestock Indemnity Program (35 percent of MDP outlays). OMB will evaluate MDP activity annually and determine which components to measure for a specific fiscal year.

Note #7: RMA uses a 3-year running average to calculate its improper payment rate. fiscal year 2012 is based on the measurement of 2009, 2010, and 2011 crop year outlays.

Note #8: SNAP fiscal year 2012 reporting information is based on fiscal year 2011 outlays. SNAP reduction targets may be reduced and adjusted in consideration of increased need resulting from further growth in the program, which has been unprecedented during the past few years, State budget constraints, and other related factors. The SNAP improper payment rate trend line goes from 5.99 percent in fiscal year 2007 to 3.80 percent in fiscal year 2012. Due to the above issues, it is not realistic and likely not achievable for SNAP to consistently have 3.80 percent or less improper payment rate for future years.

Note #9: The FSRI, RAP, and WFSM programs' information for fiscal year 2012 reporting is based on fiscal year 2011 outlays.

Note #10: The MAL improper payment rate trend line goes from 7.52 percent in fiscal year 2007 to 0.08 percent in fiscal year 2012. The 0.08 percent rate for fiscal year 2012 is an outlier compared to rates of the previous 5 years. Due to the inherent variables in the statistical sampling measurement process, a fiscal year 2013 reduction lower than 0.08 percent is not realistic and likely not achievable. The MAL reduction target rates for fiscal year 2013, fiscal year 2014 and fiscal year 2015 in Exhibit 27, are more realistic and achievable in relationship to the MAL trend line from fiscal year 2007 through fiscal year 2011.

Note #11: The WFSM program has reported a 0.00 percent improper payment rate for the past 4 years. Due to the inherent variables in the statistical sampling measurement process, it is not realistic and likely not achievable for WFSM program to consistently have 0.00 percent improper payment rate for future years.

Note #12: Due to the inherent variables in the statistical sampling measurement process, it is not realistic and likely not achievable for FSRI program to consistently have 0.02 percent or less improper payment rate for future years.

Regarding a comparison of SNAP to other USDA programs from the perspective of our Investigations division, our foremost observation is the large number of successful SNAP investigations. Our investigations division has conducted recently, and the significant proportion of investigative resources the division is allocating to pursue criminal activity in the program. The amount of convictions and monetary results from recent division investigations in SNAP are higher than for any other USDA program. For example, in fiscal year 2012, the total convictions and monetary results obtained from investigations pertaining to Farm Service Agency (FSA), Risk Management Agency (RMA), Rural Housing Service (RHS), Rural Business Service (RBS), and Grain Inspection, Packers and Stockyards Administration (GIPSA) programs were 72 convictions and \$36.8 million, respectively. In the same fiscal year, division investigative work in SNAP alone resulted in 342 convictions and \$57.7 million in monetary results. Overall, SNAP investigations produced over 50 percent of the monetary results achieved by the division's Investigations division in fiscal year 2012.

The following chart provides a breakdown by agency of fiscal year 2012 indictments, convictions, and monetary results from division investigations. Note that the overall monetary results from division investigations obtained in fiscal year 2012 were ap-

proximately \$106 million; as mentioned above, SNAP investigations accounted for over \$57 million of that total (which is reflected in the Food and Nutrition Service monetary results below).

Agency	Indictments	Convictions ¹	Monetary Results
Agricultural Marketing Service	2	4	\$340
Animal Plant Health Inspection Service	50	75	263,620
Agricultural Research Service	4	2	71,200
Foreign Agricultural Service	3	1	99,191
Food and Nutrition Service	626	364	68,531,818
Forest Service	6	9	82,700
Farm Service Agency	28	37	14,554,850
Food Safety and Inspection Service	17	9	371,825
Grain Inspection, Packers and Stockyards Administration	6	4	1,100,000
Natural Resources Conservation Service	2	2	65,800
Rural Business—Cooperative Service	6	4	10,196,005
Rural Housing Service	29	17	8,937,577
Risk Management Agency	12	10	2,053,929
Rural Utility Service	1		
Totals	793	538	106,328,855

¹ This category includes pretrial diversions.

Question. Are there any areas where there are major problems that the USDA could address within the SNAP program?

Answer. FNS needs to address the following recommendations issued in our audit reports:

27002-0011-13 SNAP Fraud Prevention and Detection Efforts.—In this audit, issued September 2012, our objective was to evaluate the adequacy of FNS and State tools used to prevent and detect SNAP fraud, determine whether the States were using the tools provided, and identify and evaluate the integrity of amounts reported for recipient and retailer fraud. We found that States need to more fully use existing tools to ensure applicant eligibility and detect fraud. We also found that FNS has not established processes to identify or estimate the total amount of SNAP fraud occurring nationwide, either by recipients or by retailers. Overall, the report recommended that for FNS to better detect and prevent recipient fraud, FNS should specify a set of tools that States are required to use for fraud detection, and create associated guidelines for their consistent usage. We have agreed with FNS on its corrective actions on each of the report's nine recommendations. In addition, FNS has reported that it has completed corrective actions on seven of the nine recommendations.

27001-0001-10 Overlap and Duplication in FNS' Nutrition Programs.—In this audit, issued June 2013, our objective was to assess FNS' nutrition programs to identify the potential for overlap and duplication. We found that the potential for overlap and duplication exists among FNS' 15 nutrition programs, and determined that FNS may be duplicating its efforts by providing participants total benefits in excess of 100 percent of daily nutritional needs when households and/or individuals participate in more than one FNS program simultaneously. The overall recommendations in the report were for FNS to determine and document the requirements for conducting a study, and to identify and determine the extent to which overlap and duplication may exist in FNS' nutritional assistance programs. For the report's two recommendations, we have agreed with FNS on the corrective actions on both recommendations. FNS is currently working to implement the corrective actions outlined in those recommendations.

27703-0001-22 Recovery Act Impacts on SNAP.—In this audit, issued June 2013, our objective was to determine if FNS had sufficient internal controls to ensure that SNAP administrative funds provided by the Recovery Act were used in accordance with the Recovery Act's provisions, Office of Management and Budget guidance, and FNS requirements for allowable program costs. FNS did not provide adequate accounting guidance, coordination, and oversight to ensure States fully complied with transparency and accountability requirements. The overall recommendations for the report were for FNS to recover unallowable expenditures totaling \$470,272 from three State agencies and one county. We have not reached agreement on the report's four recommendations for corrective actions. We are continuing to work with the agency to do so.

27601-0001-31 FNS: Controls for Authorizing SNAP Retailers.—In this audit, issued July 2013, our objective was to assess FNS' controls over the retailer author-

ization process, findings reported by Scripps Howard News Service of permanently disqualified owners participating in SNAP, and FNS' recent actions to strengthen its processes. We found that FNS does not have clear procedures and guidance to carry out key oversight and enforcement activities to address SNAP retailer fraud, or adequate authority to prevent multiple instances of fraud—either by a particular owner or within a particular location. In addition, FNS regional offices put their limited resources towards other activities, such as retailer authorization, rather than assessing and enforcing retailer penalties. The overall recommendations for the report were for FNS to comprehensively review its policies and procedures, seek legislative change to retain a portion of retailer penalties, require background checks for retailers, strengthen internal guidance, improve its automated retailer data system, create and strengthen safeguards for high-risk stores, and require more supervisory reviews. Of the report's 20 recommendations for corrective actions, we have agreed with FNS' corrective actions on 12 of the recommendations. For the remaining eight recommendations, we continue to work with the agency to reach a resolution.

SUBCOMMITTEE RECESS

Senator PRYOR. The subcommittee will meet again 10 a.m. on Thursday, May 16. And I think this is the room where we'll hear from some of the Under Secretaries.

So again, thank you for your time and thank you for being part of this.

And with that, we'll recess the hearing.

[Whereupon, at 11:59 a.m., Thursday, May 9, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, May 16.]